# Draft Statement of Accounts

# 2017-2018

# ANNUAL STATEMENT OF ACCOUNTS 2017/18

The Statement of Accounts is the formal financial report on the Council's activities as required by the Accounts and Audit Regulations 2015, and other statutory provisions.

The statement includes:



Further information about the Council's Accounts can be obtained from the Finance Department at the Shirehall.

For details please contact James Walton on (01743) 258915, or Cheryl Sedgley on (01743) 258937.

James Walton
Head of Finance, Governance & Assurance

## Section 1

# Narrative Report

## The Statement of Accounts

The purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members of the Council, employees and other interested parties clear information about the Council's finances. The format of the Statement of Accounts is governed by The Code of Practice on Local Authority Accounting in the United Kingdom, published by CIPFA (the Code). To make the document as useful as possible to its audience and so as to make meaningful comparisons between authorities possible the Code requires:

- All Statement of Accounts to reflect a common pattern of presentation, although this does not necessarily require them to be in an identical format.
- Interpretation and explanation of the Statement of Accounts to be provided.
- The Statement of Accounts and supporting notes to be written in plain language.

The section on accounting policies describes the basis on which the financial information within the statements is prepared. Information is included within the statements having regard to the concepts of relevance, reliability, comparability and understandability together with a consideration of materiality.

This statement of accounts comprises various sections and statements, which are briefly explained below:

- **A Narrative Report** – this provides an effective guide to the most significant matters reported in the accounts, including an explanation of the Council's financial position and details the performance of the Council during the financial year.

- **The Statement of Responsibilities** – this details the responsibilities of the Council and the Chief Financial Officer concerning the Council's financial affairs and the actual Statement of Accounts.

- **The Audit Opinion and Certificate** – this is provided by the external auditor following the completion of the annual audit.

- **The Core Financial Statements,** comprising:

    - **The Comprehensive Income and Expenditure Statement** – this is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise council tax according to different rules and for the ability to divert particular expenditure to be met from capital resources.

    - **The Movement in Reserves Statement –** this shows the movement in the year on the different reserves held by the Council which is analysed into 'usable reserves' and other reserves.

- **The Balance Sheet** – like the Income and Expenditure Statement this is also fundamental to the understanding of the Council's financial position as at 31 March 2018. It shows the balances and reserves at the Council's disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the non current assets held.

- **The Cash Flow Statement** – this consolidated statement summarises the Council's inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. Cash is defined for the purpose of this statement, as cash in hand and cash equivalents.

- **The Notes to the Core Financial Statements** provide supporting and explanatory information on the Core Financial Statements and include the Council's accounting policies.

- **Group Accounts** – group financial statements are required in order to reflect the variety of undertakings that local authorities conduct under the ultimate control of the parent undertaking of that group. The group accounts should also include any interests where the Council is partly accountable for the activities because of the closeness of its involvements i.e. in associates and joint ventures.

- **The Pension Fund Accounts and Disclosure Notes** – the Shropshire County Pension Fund is administered by this Council, however, the pension fund has to be completely separate from the Council's own finances. The accounts summarise the financial position of the Shropshire County Pension Fund, including all income and expenditure for 2017/18 and assets and liabilities as at 31 March 2018.

- **The Housing Revenue Account** – There is a statutory duty to account separately for local authority housing provision.

- **The Collection Fund –** This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund, which shows the transactions of the billing authority in relation to Non-Domestic Rates and the Council Tax, and illustrates the way in which these have been distributed to preceptors and the General Fund.

A glossary to the Statement of Accounts is also included to help to make, what is ultimately a very technical accounting document, more understandable to the reader.

## Financial Report

### Revenue Outturn for 2017/18

The revenue budget for 2017/18 was agreed by Council in February 2017. During the course of the year, budgets can move between service areas in line with the Council's approval process, however the Net Budget remains the same, to reflect the funding that the Council receives. Revenue budgets are monitored and reported regularly to Cabinet in order that service areas can identify any problem areas and take the necessary action to deal with the issues arising.

The final outturn position for each Service Area is shown in the table below which compares actual net expenditure with the approved budget. Further details of the outturn position for each directorate is shown in the Revenue Outturn report which is presented to Cabinet and Council.

| | Final Budget £000 | Actual Outturn £000 | Over/ (Under) £000 |
|---|---|---|---|
| **Service Expenditure** | | | |
| Adult Services | 92,188 | 91,919 | (269) |
| Children's Services | 46,692 | 51,295 | 4,603 |
| Place & Enterprise | 82,948 | 83,810 | 862 |
| Public Health | 5,553 | 4,741 | (813) |
| Resources & Support | 3,584 | 2,312 | (1,272) |
| Corporate | (24,892) | (28,616) | (3,724) |
| **Net Budget** | **206,073** | **205,460** | **(613)** |
| **Funded By:** | | | |
| Revenue Support Grant | 20,448 | 20,448 | |
| Top Up grant | 9,481 | 9,481 | |
| Business Rates | 37,761 | 37,761 | |
| Collection Fund Surplus | 4,162 | 4,162 | |
| Council Tax | 134,221 | 134,221 | |
| **Total Funding** | **206,073** | **206,073** | |

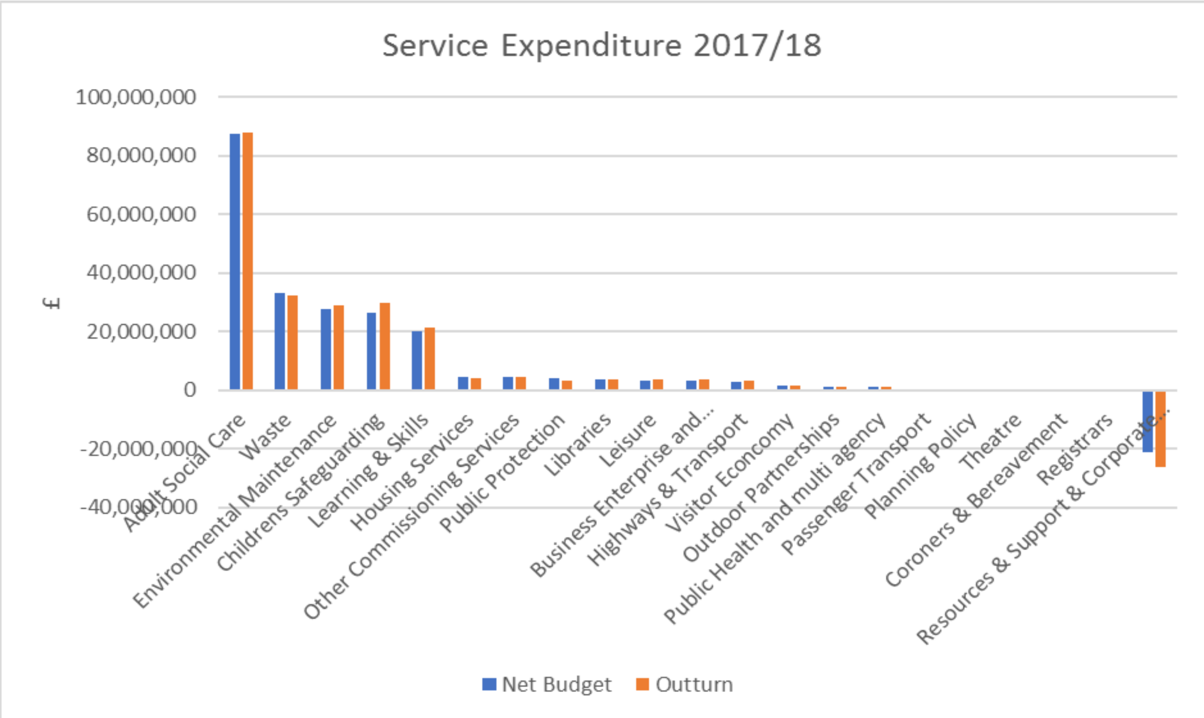
Budget monitoring reports during the course of the year have shown the following position:

| Over/(Under)spend Projected | Quarter 1 £000 | Quarter 2 £000 | Quarter 3 £000 | Outturn £000 |
|---|---|---|---|---|
| Adult Services | (66) | (45) | (938) | (269) |
| Children's Services | 3,444 | 3,948 | 4,455 | 4,603 |
| Place & Enterprise | 1,062 | 1,164 | 62 | 862 |
| Public Health | (99) | (116) | (294) | (813) |
| Resources & Support | 1,026 | 1,067 | 338 | (1,272) |
| Corporate | (1,179) | (957) | (3,682) | (3,724) |
| **TOTAL** | **4,188** | **5,061** | **(59)** | **(613)** |

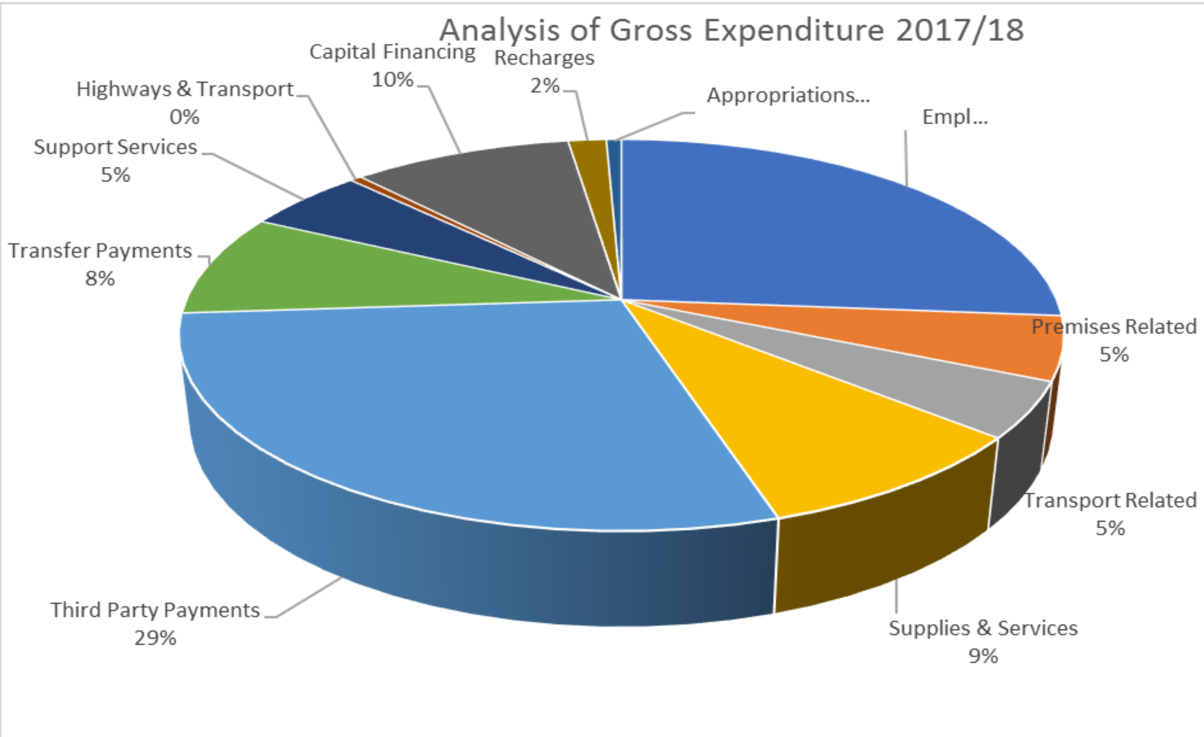
The main areas of overspend identified during the year were in Children's Services and Place & Enterprise. Within Children's Services pressures arose from hard to achieve savings targets, grant losses, cost pressures on Home to School Transport as well as significant pressures on residential and foster care placements, the costs of supporting Unaccompanied Asylum Seeking Children and agency costs in excess of budget. Within

Place & Enterprise significant pressures arose in Environmental Maintenance related to severe weather in the final months of the year. The overall pressure in both Children's Services and Place & Enterprise has been offset by underspends in other directorates achieved through strategies such as applying a spending freeze across many budget headings.

The chart below demonstrates which services the Council has spent its net budget on. It should be noted that this excludes any expenditure on schools which is funded separately through the Dedicated Schools Grant.




The gross expenditure for the Council, including expenditure for schools was £667.8m and this was spent on the following types of expenditure:



The overall underspend of £0.613m against service area's budgets represents 0.11% of the gross budget of £563.350m.

In addition, School balances, including invested sums, have decreased by £0.905m from the previous year. Schools' balances have to be ring-fenced for use by schools, and schools have the right to spend those balances at their discretion. Twelve schools converted to academies during the year.

Further detail on the Council's service expenditure can be found within the Comprehensive Income & Expenditure Statement and Notes 6 and 7 to the Accounts.

## Capital Outturn for 2017/18

The Capital Budget is monitored throughout the year to identify any pressures and re-profile budgets based on revised expenditure projections. The budget changes as a result of slippage from the previous financial years capital programme, new capital allocations received or reductions in existing allocations and re-profiling of capital allocations between financial years.

The table below provides a summary of the revised capital budget and expenditure for 2017/18 as at outturn and slippage into the next financial year. Further details of the outturn position are provided in the Capital Outturn report presented to Cabinet and Full Council.

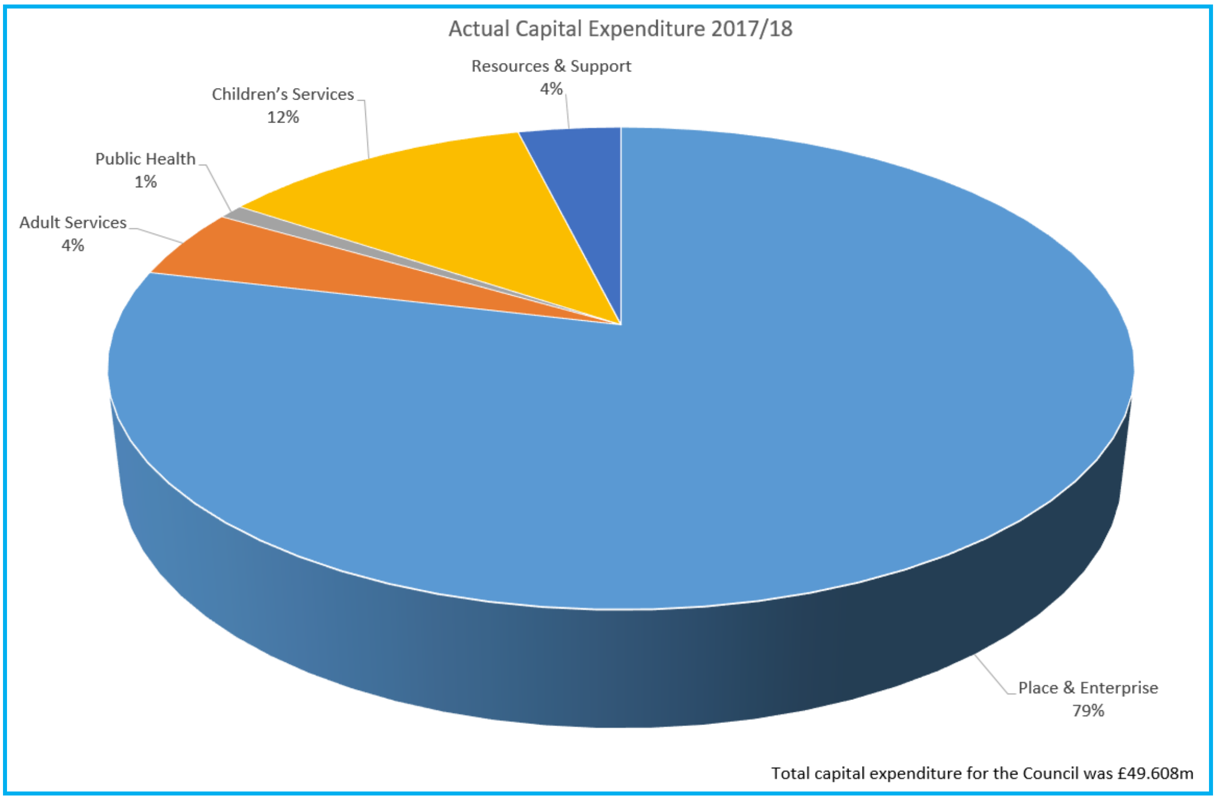
| Service Area | Revised Budget 2017/18 £000 | Actual Spend 2017/18 £000 | Variance 2017/18 £000 |
|---|---|---|---|
| General Fund | | | |
| Place & Enterprise | 38,025 | 33,667 | (4,358) |
| Adult Services | 4,860 | 2,005 | (2,855) |
| Public Health | 554 | 409 | (145) |
| Children's Services | 6,041 | 5,024 | (1,017) |
| Resources & Support | 1,745 | 1,646 | (99) |
| **Total General Fund** | **51,225** | **42,751** | **(8,474)** |
| **Housing Revenue Account** | 8,523 | 6,857 | (1,666) |
| **Total Capital Programme** | **59,748** | **49,608** | **(10,140)** |

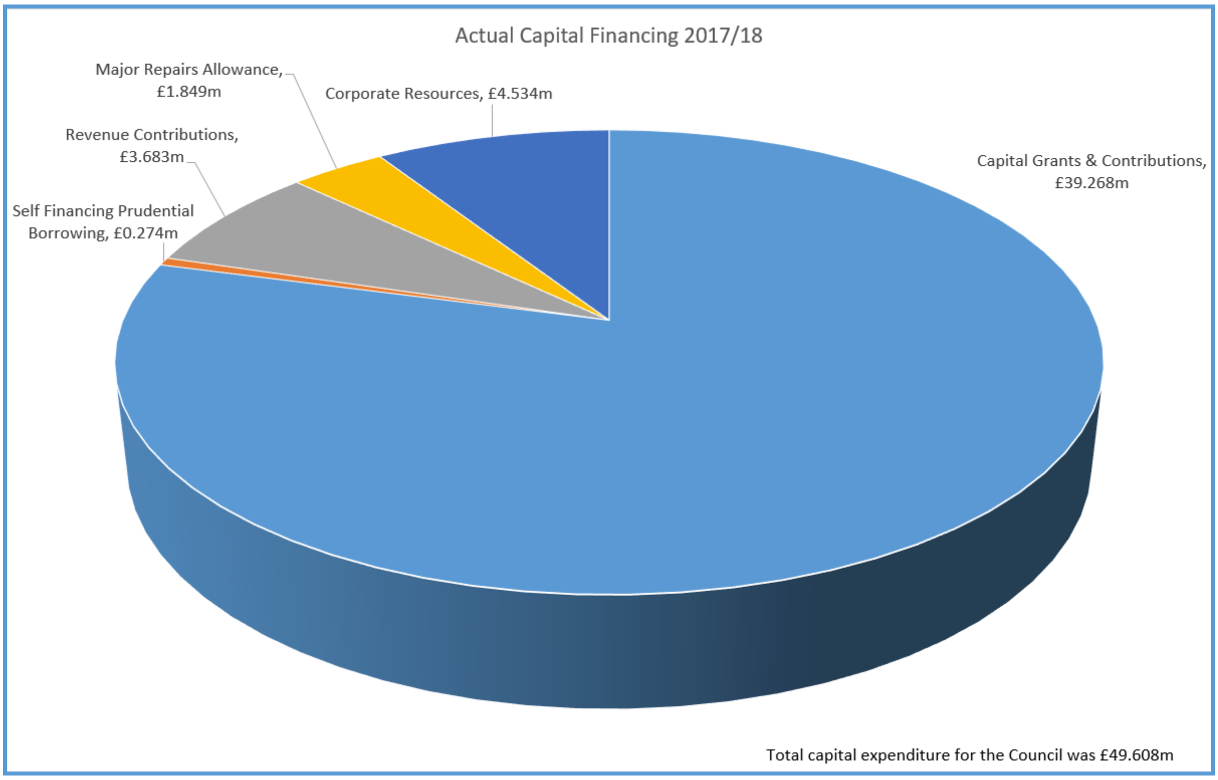
The table below provides a summary of the capital financing for the actual capital expenditure for 2017/18.

| Financing | 2017/18 £000 |
|---|---|
| Capital Grants & Contributions | 39,268 |
| Revenue Contributions | 3,683 |
| Major Repairs Allowance | 1,849 |
| Self Financing Prudential Borrowing | 274 |
| Corporate Resources (Prudential Borrowing/Capital Receipts) | 4,534 |
| | **49,608** |

The areas of most significant expenditure for schemes undertaken in 2017/18 are as follows:

| | Expenditure 2017/18 £000 | Scheme Total Budget £000 |
|---|---|---|
| **Place & Enterprise** | | |
| Highways, Bridges & Street Lighting Infrastructure | 20,847 | Ongoing |
| LEP Schemes | 4,494 | 12,795 |
| Flood defences and water management | 1,059 | 4,307 |
| Affordable Housing Schemes | 672 | Ongoing |
| Broadband | 3,961 | 33,896 |
| Corporate Landlord | 1,393 | 7,881 |
| **Adult Services** | | |
| Supported Living and improvements to buildings for use by service users | 379 | Ongoing |
| Disabled Facilities Grants | 1,368 | Ongoing |
| **Resources & Support** | | |
| Digital Transformation Project | 1,646 | Ongoing |
| **Children's Services** | | |
| Schools Condition Schemes | 2,687 | Ongoing |
| Devolved Formula Capital & UIFSM - Allocated by schools | 902 | Ongoing |
| **Housing Revenue Account** | | |
| Housing Major Repairs Programme | 3,914 | Ongoing |
| New Build Programme - Phase 2-4 | 2,595 | 6,453 |






**Reserves**

The general fund balance has increased by £0.613m in 2017/18 to a total of £15.311m. This reflects the underspend within the revenue account during 2017/18 and a small over recovery of insurance costs. This balance lies above the risk assessed level of balances calculated in 2017/18.

Earmarked reserves have increased by £5.980m during 2017/18, which includes a decrease in schools delegated balances of £0.905m. Total earmarked reserves are held at £69.839m including school balances of £7.372m.

The most significant earmarked reserve held is the Financial Strategy Reserve at £24.556m which is held in accordance with the financial strategy where the Council will be using one off funding to close the funding gap. The Council released £5.884m of the balance within the revenue budget in 2017/18, in line with the Council's Financial Strategy. The remaining balance held on the reserve will be used between 2018/19 and 2020/21.

**Assets**

During 2017/18, facilities at six schools were written out of the Council balance sheet because of the schools transferring to Academy School status or the transfer of the buildings and hardstanding areas to the Diocese was completed, prior to the school transferring to Academy School status. In accordance with the Council's accounting policies, these are now valued at nil value in the Council's balance sheet and as a result of the transfers assets of £18.6m were written out of the balance sheet, accounted for as a loss on disposal.

During the year the Council took the opportunity to make a major investment in Shrewsbury Town Centre. The Council acquired the freehold of the Charles Darwin Shopping Centre including 11 Castle Street, the freehold of the Pride Hill Shopping Centre, the vendor's leasehold interest in the Riverside Shopping Centre and the vendor's leasehold interest in the Riverside Medical Centre the primary objective of this acquisition being to support the economic growth and regeneration of the town centre. It will support the development of Shrewsbury as a 'destination', help provide an improved and attractive retail and leisure offer, and secure employment for Shropshire residents both directly and indirectly. All of the assets acquired were held in Jersey Property Unit Trusts (JPUT) and have remained as such. These are shown on the balance sheet as "unquoted equity investments".

**Borrowing**

The Council undertakes long-term borrowing, for periods in excess of one year, in order to finance capital spending. The Council satisfies its borrowing requirement for this purpose by securing external loans. However, the Council is able to temporarily defer the need to borrow externally by using the cash it has set aside for longer term purposes; this practice means that there is no immediate link between the need to borrow to pay for capital spend and the level of external borrowing. The effect of using the cash set aside for longer term purposes to temporarily defer external borrowing is to reduce the level of cash that the Council has available for investment.

Due to the reduction in the capital programme and slippage within the programme, there has been no additional borrowing required for current schemes.

**Cashflow**

Cashflow forecasts are prepared for the current and future financial year and are monitored on a daily basis. The cashflow forecast is regularly updated to take account of future changes so the cash position of the Council can be managed appropriately. We are satisfied that cashflow levels are sustainable in the short to medium term based on the information we currently have.

**Local Government Pension Scheme**

The Council accounts for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future. This means that:

- The financial statements reflect the liabilities arising from the Council's retirement obligations.
- The costs of providing retirement benefits to employees are recognised in the accounting period in which the benefits are earned by employees, and the related finance costs and any other changes in value of assets and liabilities are recognised in the accounting periods in which they arise.
- The financial statements disclose the cost of providing retirement benefits and related gains, losses, assets and liabilities.

As at 1 April 2017, the Council's net pensions liability amounted to £389m. In comparison, the deficit amounts to £462m at 31 March 2018 due to a change in financial assumptions impacting on the asset and liability figures. Statutory requirements for funding the deficit means the financial position of the Council remains healthy, as the deficit will be met by increased contributions over the remaining working life of employees.

During 2017/18, the Council took the opportunity to make an early payment of the Local Government Pension Scheme deficit lump sum for a period of 3 years in order to deliver a revenue saving as a result of lower interest of repaying the deficit.

Further details on the basis on which the Council accounts for retirement benefits are provided within the Accounting Policies in note 1 on page 21, and the change to the pension liability in 2017/18 is analysed in note 39 to the accounts.

Shropshire County Pension Fund has worked with eight other Funds in the Midlands region to meet the tight deadlines set by Government to pool assets by 1 April 2018. The Shropshire Fund is part of LGPS Central, a multi asset manager, investing approximately £40 billion on behalf of its members from 2018 onwards, on behalf of 893,265 members and 2,441 employers. The aims of LGPS Central will be to deliver cost savings, to build on existing investment expertise of its member funds through increased scale, resilience and sharing of knowledge and has in place strong governance and decision making arrangements. It aims to make the best use of a blend of internal and external investment management. LGPS Central Ltd is jointly owned on an equal share basis by eight Pension Funds and is a Collective Portfolio Management Investment Firm regulated by the Financial Conduct Authority (FCA). The company is a private company limited by shares and was incorporated in October 2016. The majority of assets under management will be structured in an Authorised Contractual Scheme (ACS), itself regulated by the FCA, in addition to other pooled investments held in alternative structures.

**Performance in 2017/18**

The Council adopted its Corporate Plan in December 2016. It has been refreshed for 2018/19 and a new Corporate Plan will be written for 2019/20 to 2021/22. The Plan sets out high-level outcomes and a range of medium term outcomes and objectives for the coming 12 to 24 months. The medium term outcomes and objectives are the basis for the Council's Strategic Action Plans which are thematic and cross cutting.

The Council's corporate performance management framework is structured around the high-level outcomes listed below and incorporates the measures and project delivery milestones from the strategic action plans.

- **Healthy People**
- **Resilient Communities**
- **Prosperous Economy**
- **Operating the Council**

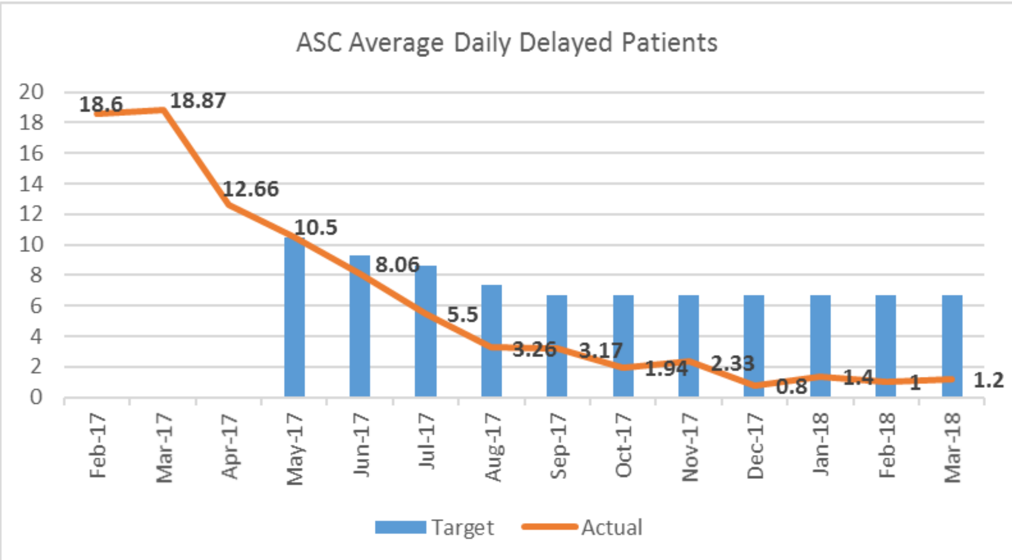
The delivery of the outcomes for Shropshire is monitored on a quarterly basis. It is presented using a performance portal, which enables a drill down into the measure. The information is reported to Cabinet with the report identifying specific measures by exception. The full information for each measure is published on the performance portal when the report goes to Cabinet and this provides Overview and Scrutiny the opportunity to identify any measures which stand out that they would like to understand in greater detail. They can request additional information and receive it to inform whether they would want to add it to their work programme.

**2017/18 has seen improvement and stabilisation in performance across a range of services.**

The number of visitors to Theatre Severn and the Old Market Hall Cinema have continued to increase. The popularity of Theatre Severn continues to show a long term improvement in the number of attendances, and the Old Market Hall has also had a record year.

Children's services provided by Shropshire Council have been rated as 'good' overall by Government inspectors Ofsted, following a four-week inspection in September and October 2017. The inspection looked at services for children in need of help and protection, looked-after children, and care leavers. Only 46 councils are currently rated as 'good' for their children's services, and only three have achieved the top rating of 'outstanding'. This means that Shropshire Council's children's services are now in the top 30% nationally. The 'good' rating is an improvement from the 'adequate' rating that was awarded following the last Ofsted inspection in November 2012.

Significant progress has been made on delayed transfers of care from hospital. National targets have been set to reduce the number of patients who are delayed in their transfer from hospital. The aim is to reduce bed blocking to less than 3.5% of all available NHS beds. The target set for Shropshire Adult Social Care by the Department of Health was to reduce delays attributed to social care by 60% by September and to maintain that level. This is based on a baseline of delayed patients between February and April 2017. Based on this, from September 2017 the daily number of Shropshire residents who are delayed in hospital due to social care should, on average, be no more than 6.7 patients per day. The latest available data for March 2018 was published on the 10 May 2018 and shows that Shropshire Council has consistently achieved and maintained performance well below its target.




In addition to these, there are confirmed challenges to be faced, and results show that they are being managed by the relevant service areas.

The rate of Looked After Children (LAC) per 10,000 children aged under 18 has risen during 2017/18. Shropshire's rate is now similar to statistical neighbour averages, and remains lower than the England average. One of the key factors for the increase during the year is that fewer children have been discharged this year than in the previous year. It is important to reaffirm that the Council's LAC strategy is not about reducing the number of children in care, but is about ensuring the right children are in care, at the right time and for the right duration.

The number of people killed or seriously injured on the roads in Shropshire has continued to increase. The annual average over the past 3 years is for 166.7 people to be seriously or fatally injured.

A new approach to the determining of the severity of casualties was introduced and now relies less on the judgement of Police Officers. This has seen a national increase in the rate of reported severities. It is forecast that the reported number of people killed or seriously injured will continue to rise until December 2018 after which the new methodology for recording casualties will have completed a 3 year cycle. It should be noted that the number of casualties does not reflect the number of accidents which have remained at similar levels throughout the period.

**Current and Future Prospects**

2018/19 will be the first year of a new five-year plan, as set out in our Financial Strategy. The plan doesn't, as yet, provide a balanced and sustainable budget for the long-term future, but it does meet our immediate challenges over the next two years. There's still a significant amount of uncertainty around the 2020/21 financial year due to the introduction of 75% business rates retention in that year, alongside the fair funding review. Government backed Technical Working Groups continue to develop this approach, representing the greatest change in local government finance for a generation, but at present, no details of how this could operate have been forthcoming. Therefore until further clarity is available from the government regarding the detail of these proposals, and we can evaluate the impact on the resources projected, it's not possible to formulate long-term plans to ensure a sustainable future for the council.

Next year we will be investing over £53million of capital funding into local projects. The capital programme remains priority led, reflecting the need for growth in the Shropshire economy, investment in infrastructure and roads, and significant funding to deliver superfast broadband across much of Shropshire in the coming years. We continue to invest in digital transformation in order to streamline and improve the efficiency and productivity of our back-office services and reduce ongoing costs. Shropshire’s residents will begin to see the outcomes of this investment over the coming months as we deliver more services online, in a more accessible and efficient way.

The bottom line is, of course, that we have a statutory duty to set a legal budget. This is becoming increasingly difficult as each year progresses. In 2018/19 we will continue to see the use of significant one-off resources as well as the commencement of a £43m savings plan spanning five years in order to deliver a balanced budget. This gives us more time to review our options and formulate sustainable proposals, but leaves us with some stark choices over the way we deliver services into the future.

## Section 2

# Statement of Responsibilities

# STATEMENT OF RESPONSIBILITIES

**The Council's Responsibilities**

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Finance, Governance & Assurance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

**Approved by Council**

The Council's Statement of Accounts for 2017/18 was formally approved at a meeting of the Council on 20 July 2018.

Vince Hunt
Speaker of the Council (Chairman for the purpose of the Local Government Act 1972)
20 July 2018

**Responsibilities of Head of Finance, Governance & Assurance**

The Head of Finance, Governance & Assurance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* ("the Code").

In preparing this Statement of Accounts, the Head of Finance, Governance & Assurance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the local authority Code.

The Head of Finance, Governance & Assurance has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

**Certificate of the Head of Finance, Governance & Assurance**

I hereby certify that the Statement of Accounts present a true and fair view of the financial position and the income and expenditure of the Council for the year ended 31 March 2018.

James Walton
Head of Finance, Governance & Assurance
31 May 2018

## Section 3

# Audit Opinion & Certificate

# AUDIT OPINION & CERTIFICATE

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL**

We have audited the financial statements of Shropshire Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Core Financial Statements (Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet and the Cashflow Statement), the Notes to the Core Financial Statements, the Group Accounts (the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement and the Notes to the Group Accounts), the Housing Revenue Account (the Housing Revenue Account's Income and Expenditure Statement, the Movement on the Housing Revenue Account's Statement and the Notes to the Housing Revenue Account) and the Collection Fund (the Collection Fund and the Notes to the Collection Fund).

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the Head of Finance, Governance and Assurance and auditor**

As explained more fully in the Statement Responsibilities, the Head of Finance, Governance and Assurance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code Of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Governance and Assurance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, the Group Accounts Introduction and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

**Opinion on financial statements**

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

**Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report, the Group Accounts Introduction and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

**Matters on which we report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

**Respective responsibilities of the Authority and the auditor**

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

# AUDIT OPINION AND CERTIFICATE

**Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work, as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

**Certificate**

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

Mark Stocks
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building,
20 Colmore Circus,
Birmingham
B4 6AT

XX July 2018

## Section 4

# Core Financial Statements

# COMPREHENSIVE INCOME & EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory regulations; this may be different from the accounting cost. The taxation position is shown in the Expenditure and Funding Analysis and the Movement in Reserves Statement.

| 2016/17 | | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| Gross Expenditure £000 | Income £000 | Net Expenditure £000 | | Gross Expenditure £000 | Income £000 | Net Expenditure £000 |
| | | | **Expenditure on Continuing Services (Notes 6, 7 and 8)** | | | |
| 120,962 | (36,088) | 84,874 | Adult Services | 132,711 | (44,646) | 88,065 |
| 10,224 | (18,396) | (8,172) | Local Authority Housing | 9,240 | (18,180) | (8,940) |
| (28,230) | 0 | (28,230) | Exceptional costs relating to revaluation gain on Housing Dwellings | 0 | 0 | 0 |
| 220,505 | (167,440) | 53,065 | Children's Services | 213,177 | (158,167) | 55,010 |
| 111,105 | (33,311) | 77,794 | Place and Enterprise | 113,970 | (36,198) | 77,772 |
| 23,533 | (17,495) | 6,038 | Public Health | 20,522 | (16,327) | 4,195 |
| 79,062 | (75,130) | 3,932 | Resources and Support | 74,329 | (68,482) | 5,847 |
| 6,578 | (4,650) | 1,928 | Corporate | 4,275 | (4,118) | 157 |
| **543,739** | **(352,510)** | **191,229** | **Net Cost of Services** | **568,224** | **(346,118)** | **222,106** |
| | | 43,159 | Other Operating Expenditure (Note 11) | | | 29,715 |
| | | 36,240 | Financing and Investment Income and Expenditure (Note 12) | | | 25,689 |
| | | (268,574) | Taxation and Non Specific Grant Income (Note 13) | | | (274,507) |
| | | **2,054** | **(Surplus) or Deficit on Provision of Services** | | | **3,003** |
| | | (35,853) | (Surplus) or Deficit on Revaluation of Non Current Assets | | | (13,291) |
| | | 759 | Impairment Losses on Non-Current Assets Charged to the Revaluation Reserve | | | 379 |
| | | 61,785 | Remeasurement of the Net Defined Benefit Liability | | | (40,500) |
| | | **26,691** | **Other Comprehensive Income and Expenditure** | | | **(53,412)** |
| | | **28,745** | **Total Comprehensive Income and Expenditure** | | | **(50,409)** |

# MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'.

The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwellings rent setting purposes.

The Net Increase/(Decrease) before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

| 2017/18 | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Total General Fund Balance £000 | Housing Revenue Account £000 | Major Repairs Reserve £000 | Capital Grants Unapplied Account £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2017** | **14,698** | **63,860** | **78,558** | **9,031** | **2,369** | **11,574** | **101,532** | **288,295** | **389,827** |
| **<u>Movement in reserves during 2017/18</u>** | | | | | | | | | |
| Surplus or (deficit) on the provision of services | (9,815) | 0 | **(9,815)** | 6,812 | 0 | 0 | **(3,003)** | 0 | **(3,003)** |
| Other Comprehensive Income and Expenditure | 0 | 0 | **0** | 0 | 0 | 0 | **0** | 53,412 | **53,412** |
| **Total Comprehensive Income and Expenditure** | **(9,815)** | **0** | **(9,815)** | **6,812** | **0** | **0** | **(3,003)** | **53,412** | **50,409** |
| Adjustments between accounting basis & funding basis under regulations (Note 9) | 16,407 | 0 | **16,407** | (7,618) | 2,145 | 9,852 | **20,786** | (20,786) | **(0)** |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | **6,592** | **0** | **6,592** | **(806)** | **2,145** | **9,852** | **17,783** | **32,626** | **50,409** |
| Transfers to/from Earmarked Reserves (Note 10) | (5,979) | 5,979 | **0** | 0 | 0 | 0 | **0** | (707) | **(707)** |
| **Increase/Decrease in 2017/18** | **613** | **5,979** | **6,592** | **(806)** | **2,145** | **9,852** | **17,783** | **31,919** | **49,702** |
| **Balance at 31 March 2018** | **15,311** | **69,839** | **85,150** | **8,225** | **4,514** | **21,426** | **119,315** | **320,214** | **439,529** |

# MOVEMENT IN RESERVES STATEMENT

| 2016/17 | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Total General Fund Balance £000 | Housing Revenue Account £000 | Major Repairs Reserve £000 | Capital Grants Unapplied Account £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2016** | **18,370** | **60,841** | **79,211** | **5,823** | **2,802** | **6,612** | **94,448** | **324,124** | **418,572** |
| **<u>Movement in reserves during 2016/17</u>** | | | | | | | | | |
| Surplus or (deficit) on the provision of services | (36,300) | 0 | **(36,300)** | 34,246 | 0 | 0 | **(2,054)** | 0 | **(2,054)** |
| Other Comprehensive Income and Expenditure | 0 | 0 | **0** | 0 | 0 | 0 | **0** | (26,691) | **(26,691)** |
| **Total Comprehensive Income and Expenditure** | **(36,300)** | **0** | **(36,300)** | **34,246** | **0** | **0** | **(2,054)** | **(26,691)** | **(28,745)** |
| Adjustments between accounting basis & funding basis under regulations (Note 9) | 35,647 | 0 | **35,647** | (31,038) | (433) | 4,962 | **9,138** | (9,138) | **0** |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | **(653)** | **0** | **(653)** | **3,208** | **(433)** | **4,962** | **7,084** | **(35,829)** | **(28,745)** |
| Transfers to/from Earmarked Reserves (Note 10) | (3,019) | 3,019 | **0** | 0 | 0 | 0 | **0** | 0 | **0** |
| **Increase/Decrease in 2016/17** | **(3,672)** | **3,019** | **(653)** | **3,208** | **(433)** | **4,962** | **7,084** | **(35,829)** | **(28,745)** |
| **Balance at 31 March 2017** | **14,698** | **63,860** | **78,558** | **9,031** | **2,369** | **11,574** | **101,532** | **288,295** | **389,827** |

# BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses, where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

| 2016/17 £000 | | 2017/18 £000 | £000 |
|---|---|---|---|
| 1,106,346 | Property, Plant & Equipment (Note 14) | 1,104,615 | |
| 2,553 | Heritage Assets | 2,475 | |
| 50,935 | Investment Property (Note 15) | 54,845 | |
| 121 | Intangible Assets | 34 | |
| 599 | Assets Held for Sale | 599 | |
| **1,160,554** | **Total Non Current Assets** | | **1,162,568** |
| 400 | Long Term Investment (Note 20) | 52,605 | |
| 20,898 | Long Term Debtors (Note 20) | 20,227 | |
| **1,181,852** | **Total Long Term Assets** | | **1,235,400** |
| | Current Assets | | |
| 0 | Current Held for Sale Investment Properties (Note 15) | 0 | |
| 5,514 | Assets Held for Sale | 3,027 | |
| 59,000 | Short Term Investments (Note 20) | 47,921 | |
| 808 | Inventories | 483 | |
| 55,326 | Short Term Debtors (Notes 20 & 22) | 60,286 | |
| 93,233 | Cash & Cash Equivalents (Notes 20 & 23) | 47,042 | |
| **213,881** | **Total Current Assets** | | **158,759** |
| **1,395,733** | **Total Assets** | | **1,394,159** |
| | Current Liabilities | | |
| (13,150) | Bank Overdraft (Notes 20 & 23) | (14,625) | |
| 0 | Deferred Income | (2,175) | |
| (8,482) | Short Term Borrowing (Note 20) | (8,457) | |
| (67,800) | Short Term Creditors (Notes 20 & 24) | (66,961) | |
| (2,488) | Provisions (Note 25) | (3,453) | |
| (4,635) | Grants Receipts in Advance - Revenue (Note 37) | (4,065) | |
| (2,367) | Grants Receipts in Advance - Capital (Note 37) | (528) | |
| **(98,922)** | **Total Current Liabilities** | | **(100,264)** |
| **1,296,811** | **Total Assets Less Current Liabilities** | | **1,293,895** |
| | Long Term Liabilities | | |
| (684) | Long Term Creditors (Note 20) | (672) | |
| (317,568) | Long Term Borrowing (Note 20) | (311,568) | |
| (119,577) | Other Long Term Liabilities (Note 19) | (114,521) | |
| (461,828) | Pensions Liability (Notes 27 & 39) | (419,636) | |
| (7,327) | Provisions (Note 25) | (7,969) | |
| **(906,984)** | **Total Long Term Liabilities** | | **(854,366)** |
| **389,827** | **Net Assets** | | **439,529** |
| | Financed by: | | |
| 101,532 | Usable Reserves (Note 26) | 119,315 | |
| 288,295 | Unusable Reserves (Note 27) | 320,214 | |
| **389,827** | **Total Reserves** | | **439,529** |

# CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital to the Council.

| 2016/17 £000 | Revenue Activities | 2017/18 £000 | £000 |
|---|---|---|---|
| 2,054 | Net (surplus) or deficit on the provision of services | 3,003 | |
| (66,342) | Adjust net surplus or deficit on the provision of services for non cash movements | (57,950) | |
| 44,865 | Adjust for items in the net surplus or deficit on the provision of services that are investing and financing activities | 48,697 | |
| **(19,423)** | **Net cash flows from Operating Activities (Note 28 and 29)** | | **(6,250)** |
| 4,777 | Investing Activities (Note 30) | 39,741 | |
| (509) | Financing Activities (Note 31) | 14,175 | |
| **(15,155)** | **Net (increase) or decrease in cash and cash equivalents** | | **47,666** |
| 64,928 | Cash and cash equivalents at the beginning of the reporting period | | 80,083 |
| **80,083** | **Cash and cash equivalents at the end of the reporting period (Note 20)** | | **32,417** |

## Section 5

# Notes to the Core Financial Statements

# 1. Accounting Policies

## 1.1 General

The Statement of Accounts summarises the Council's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require them to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and the Service Reporting Code of Practice 2017/18, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted by the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

## 1.2 Accruals of Expenditure and Income

Revenue transactions are recorded on an accruals basis in accordance with proper accounting practices. In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

## 1.3. Cash and Cash Equivalents

Cash is defined for the purpose of this statement, as cash in hand and deposits with financial institutions repayable on demand without penalty on notice. Cash equivalents are short term, highly liquid investments, normally with a maturity of 90 days or less, that are readily convertible to known amounts of cash.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### 1.4. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### 1.5. Non-Current Assets - Intangible

An intangible asset is an identifiable non-monetary asset without physical substance. It must be controlled by the Council as a result of past events, and future economic or service benefits must be expected to flow from the intangible asset to the Council (e.g. computer software licences).

Intangible assets are recognised based on cost and are amortised over the economic life of the intangible asset to reflect the pattern of consumption of benefits. Only intangible assets included in the capital programme are capitalised. Each intangible asset is assessed in terms of economic life, usually up to five years.

### 1.6. Non-Current Assets – Property, Plant and Equipment

Property, plant and equipment are assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year.

<u>Recognition</u>
The cost of an item of property, plant and equipment shall only be recognised (and hence capitalised) as an asset on the balance sheet if, and only if:

- It is probable that the future economic benefits or service potential associated with the item will flow to the entity, and
- The cost of the item can be measured reliably.

Costs that meet the recognition principle include initial costs of acquisition, production or construction of assets for use by, or disposal to, a person other than the local authority; and costs incurred subsequently to enhance, replace part of, or service the asset. Subsequent costs arising from day-to-day servicing of an asset (i.e. labour costs and consumables), commonly referred to as 'repairs and maintenance', should not be capitalised if they do not meet the recognition principle because the expenditure does not add to the future economic benefits or service potential of the asset and are charged to revenue.

Initial Measurement

An item of property, plant and equipment that qualifies for recognition as an asset is measured at its cost and capitalised on an accruals basis. Accruals are made for capital works with a value of £75,000 or more undertaken but not paid for by the end of the financial year.

Measurement after recognition

Property, plant and equipment assets are subsequently valued at current value on the basis recommended by the Code of Practice on Local Authority Accounting and in accordance with The Royal Institution of Chartered Surveyors (RICS) Valuation Standards. Property, plant and equipment assets are classified into the groupings required by the Code of Practice on Local Authority Accounting and valued on the following bases:

| Category | Valuation Method (Fair Value definition) |
|---|---|
| Operational | |
| Council Dwellings | Existing Use Value – Social Housing (EUV-SH) |
| Land & Buildings | Existing Use Value (EUV) – determined as the amount that would be paid for the asset in its existing use.<br><br>Depreciated Replacement Cost (DRC) – for specialist properties where there is no market-based evidence of current value because of the specialist nature of the asset and the asset is rarely sold. |
| Vehicles, Plant & Equipment | Depreciated Historic Cost (HC) |
| Infrastructure | Historic Cost (HC) |
| Community Assets | Historic Cost (HC) |
| Non-operational | |
| Surplus Assets | Market Value (MV) fair value measurement estimated at highest and best use from a market participant's perspective. |
| Assets Under Construction | Historic Cost (HC) |

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. When new material assets are acquired/constructed or assets substantially enhanced, the asset will be valued in the financial year in which the asset becomes operational. When an asset is revalued, any accumulated depreciation and impairment at the date of valuation shall be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The Housing Revenue Account Council Dwellings are subject a full valuation every five years and to an annual desktop review of value undertaken by the Valuation Office Agency.

Where the carrying amount of property, plant and equipment is increased as a result of a revaluation, the increase shall be recognised in the Revaluation Reserve, unless the increase is reversing a previous impairment loss charged to Surplus or Deficit on the Provision of Services on the same asset or reversing a previous revaluation decrease charged to Surplus or Deficit on the Provision of Services on the same asset.

Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation, i.e. a significant decline in an asset's carrying amount during the period that is not specific to the asset (as opposed to an impairment, see 1.9), the decrease shall be recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset (i.e. up to its historical cost) and thereafter in Surplus or Deficit on the Provision of Services.

Componentisation

Where components of an asset are significant in value in relation to the total value of the asset and they have substantially different economic lives, they are recognised and depreciated separately. The requirement for componentisation for depreciation purposes is applicable to enhancement and acquisition expenditure and revaluations carried out from 1 April 2010. Significant assets for this purpose are properties with a capital value of £2.5m or over, where depreciation is £100,000 per annum or over, or any component that represents 25% of the total capital value.

Derecognition

The carrying amount of an item of property, plant and equipment shall be derecognised:

- On disposal, or
- When no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from derecognition of an asset shall be the difference between the net disposal proceeds, if any, and the carrying amount of the asset. The gain or loss arising from derecognition of an asset shall be included in the Surplus or Deficit on the Provision of Services when the item is derecognised.

If the asset derecognised was carried at a revalued amount, an additional entry is required; the balance on the Revaluation Reserve in respect of the asset derecognised is written off to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

A proportion (based on Agreement – Section 11(6) of the Local Government Act 2003) of receipts relating to dwellings disposed of under the Right to Buy Scheme are payable to the Government through the pooling system. The proportion that is required to be paid over to central government as a 'housing pooled capital receipt' is charged to Surplus or Deficit on the Provision of Services and the same amount appropriated from the Capital Receipts Reserve and credited to the General Fund Balance in the Movement in Reserves Statement.

Where a component of an asset is replaced or restored, the carrying amount of the old component is derecognised, based on the cost of the new component indexed back to the last valuation date. Where the new expenditure is deemed to also enhance the component of the original asset e.g. energy efficiency schemes the carrying amount of the old component is reduced further based on an assessment of the level of enhancement.

## 1.7. Investment Properties

An Investment property is a property held solely to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes, or sale in the ordinary course of operations.

Investment properties shall be initially measured at cost and thereafter at fair value, which is interpreted as the amount that would be paid for the asset in its highest and best use, i.e. market value (MV).

Investment properties held at fair value are not depreciated. The fair value of investment properties shall reflect market conditions at the Balance Sheet date; this means the periodic (5-yearly) revaluation approach may only be used where the carrying amount does not differ materially from that which would be determined using fair value at Balance Sheet date. As such Investment Properties are subject to an annual review to ensure their valuation reflects fair value at the balance sheet date. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

## 1.8. Non-Current Assets Held for Sale

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continued use. The following criteria have to be met before an asset can be classified as held for sale under this section of the Code:

- The asset must be available for immediate sale in its present condition.
- The sale must be highly probable; with an active programme to dispose of the asset.
- The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value.
- The sale should be expected to complete within one year of the date of classification.

Assets Held for Sale are valued at the lower of their carrying amount and fair value (market value) less costs to sell at initial reclassification and at the end of each reporting date, and are not subject to depreciation. Investment Properties that are to be disposed of are not reclassified as an Asset Held for Sale and remain as Investment Properties until disposed of, reclassified to short terms investment properties where they are expected to be disposed of within a year of the balance sheet date.

## 1.9. Impairment

At the end of each reporting period an assessment takes place as to whether there is any indication that an asset may be impaired. Examples of events and changes in circumstances that indicate an impairment may have incurred include:

- A significant decline (i.e. more than expected as a result of the passage of time or normal use) in an asset’s carrying amount during the period, that is specific to the asset;
- Evidence of obsolescence or physical damage of an asset;
- A commitment by the Council to undertake a significant reorganisation; or
- A significant adverse change in the statutory or other regulatory environment in which the Council operates.

An impairment loss on a revalued asset is recognised in the Revaluation Reserve (to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset) and thereafter in Surplus or Deficit on the Provision of Services.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### 1.10. Depreciation

Land and buildings are separate assets and are accounted for separately, even when they are acquired together. Depreciation applies to all property, plant and equipment, whether held at historical cost or revalued amount, with the exception of:

- Investment properties carried at fair value;
- Assets Held for Sale; and
- Land where it can be demonstrated that the asset has an unlimited useful life (excluding land subject to depletion, i.e. quarries and landfill sites).

An asset is not depreciated until it is available for use and depreciation ceases at the earlier of: the date the asset is classified as held for sale and the date the asset is derecognised.

The finite useful life of an asset is determined at the time of acquisition or revaluation. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Depreciation is calculated using the straight-line method. For Council Dwellings the depreciation charge is calculated on a componentised depreciation basis, using the Planned Programme Approach. The depreciation charge is calculated based on the stock data at 1st April, using the stock data of the major components at that date, from the housing condition data. The components are depreciated on a straightline basis over their useful life (10-80 years) for Decent Homes Standard; with the residual amount (excluding land) depreciated over 150 years.

On a revalued asset, a transfer between the Revaluation Reserve and Capital Adjustment Account shall be carried out which represents the difference between depreciation based on the revalued carrying amount of the asset and the depreciation based on the asset's historical cost.

### 1.11. Charges to Revenue for Non-Current Assets

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding non-current assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and Impairment losses used on assets used by the service in excess of any balance on the Revaluation Reserve for the asset.
- Amortisation of intangible assets attributable to the service.

Depreciation, amortisation, impairments, revaluation gains or losses charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund or Housing Revenue Account. Such amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement. The only exception is depreciation charges for HRA dwellings and other properties, which are real charges to the HRA since the Major Repairs Allowance constitutes a reasonable estimate of depreciation for HRA dwellings.

This ensures the Council is not required to raise Council Tax to cover depreciation, amortisation or revaluation/impairment losses. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement; further details are provided at Accounting Policy 1.15 (The Redemption of Debt). Depreciation, amortisation and revaluation/impairment losses are therefore replaced by revenue provision transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Interest payable is reported within Net Operating cost within the Income and Expenditure Account and depreciation, calculated in accordance with Accounting Policy 1.10 (Depreciation), is charged directly to service revenue accounts.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to other earmarked reserves are disclosed separately on the Movement in Reserves Statement.

## 1.12. Revenue Expenditure Funded from Capital under Statute

Legislation allows some expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset. The purpose of this is to enable it to be funded from capital resources rather than be charged to the General Fund and impact on that year's council tax. These items are generally grants and expenditure on property not owned by the Council, and amounts directed under section 16(2) of Part 1 of the Local Government Act 2003.

Such expenditure is charged to the Surplus or Deficit on the Provision of Services in accordance with the general provisions of the Code. Any statutory provision that allows capital resources to meet the expenditure shall be accounted for by debiting the Capital Adjustment Account and crediting the General Fund Balance and shown as a reconciling item in the Movement in Reserves Statement.

## 1.13. Heritage Assets

Tangible Heritage Assets are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained by the Council principally for their contribution to knowledge and culture. Intangible heritage assets are intangible assets with cultural, environmental, or historical significance.

Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Councils accounting policies on property, plant and equipment. However, due to the unique nature of Heritage Assets, some of the measurement rules are relaxed in relation to the categories of Heritage Assets held as detailed below. This is due to the lack of valuation information and the disproportionate cost of obtaining the information in comparison to the benefits to the users of the Council's financial statements.

- **Outdoor Statues/Monuments/Historic Building Remains**

The Council has a small number of assets relating to Outdoor Statues/ Monuments/ Historic Building Remains. These assets are reported on the balance sheet, but valuation of these assets is not practical due to the unique nature and lack of comparable market values. These assets are held on the balance sheet at depreciated historic cost, where this is available. Where historic cost information is not available due to the age of the asset, the assets are held at nil value.

The Council's Historical Environment Team, including the Shropshire Archaeology Service manage the Council's historic environment and archaeological sites. The Council does not consider that reliable cost or valuation information can be obtained for the assets held under the Historic Environment and Archaeology Service and the majority would fall into the de-minimus category. This is because of the unique nature of the assets held and lack of comparable market values. It is also recognised that the cost of obtaining this information outweighs any benefits. Consequently, the Council does not recognise these assets on the balance sheet, other than those included under Statues/Monuments/Historic Building Remains.

- **Museum and Archives artefacts**

Museum Service

The Shropshire Museum Service runs a countywide service which collects, documents, preserves, exhibits and interprets the material remains of Shropshire's natural and human history for public benefit. The service operates six museums and a museum resource centre.

Principal collections held by the Museum Service include:

- Agricultural
- Archaeology (including Prehistory, Roman, Medieval, Post-Medieval and Foreign)
- Archives
- Biology
- Costume & Textiles
- Decorative & Applied Arts
- Ethnography
- Fine Art
- Geological
- Numismatics
- Social History

The acquisition priorities vary between the principal collections based on existing gaps in the collection and the capabilities and resources available to the service to adequately store, conserve and display collections.

The Museum Service exercises due diligence and makes every effort not to acquire, whether by purchase, gift, bequest or exchange, any object or specimen unless the governing body can acquire a valid title to the item.

By definition, the Museum Service has a long-term purpose and should possess permanent collections in relation to its stated objectives. As a consequence there is a strong presumption against the disposal of any items in the museum's collection. In the event of the Museum

Service closing the collections would be offered to other museum authorities and neither the collections nor individual items within them would be sold to generate income.

Complete holdings are not valued, as items are generally unique and full valuation would be extremely expensive; however, some significant items have a market valuation at purchase or insurance valuation. As a consequence only those items for which the Museum Service holds an existing valuation (above a de-minimus threshold of £5,000) are recognised in the balance sheet. These principally consist of fine art paintings and items of decorative art. These assets are deemed to have indeterminate lives and a high residual value; hence the Council does not consider it appropriate to charge depreciation. Any new acquisitions will be recognised at purchase price valuation. Assets are not subject to a revaluation cycle, with revaluations only undertaken where required by the Museum Service.

Archives

The Shropshire archives and local studies service preserves and make accessible documents, books, maps, photographs, plans and drawings relating to Shropshire past and present. Not all material is owned by the Council, with a significant proportion on deposit from record owners. No reliable cost or valuation information is held for holdings, with items generally unique and valuation would be considered to be extremely expensive. Consequently the Council does not recognise these assets on the balance sheet.

Shropshire Archives has an Acquisition and Disposal policy. Shropshire Archives will acquire material for the study of all aspects of Shropshire past and present. Material will be acquired by transfer, gift, purchase or deposit. Shropshire Archives will only acquire material if the responsible officer is satisfied that the vendor, donor or depositor has a valid title to the material and will not acquire material if it cannot provide adequate storage or professional care for it. There is a strong presumption against the disposal by sale of any material in Shropshire Archives ownership. If materials are to be sold they should first be offered to other appropriate public collecting institutions. All monies received by Shropshire Archives from the sale of material shall be used for the benefit of the Service's collections.

Heritage Assets – Impairment

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council’s general policy on impairment.

## 1.14. Capital Receipts

Capital receipts from the disposal of assets are held in the Usable Capital Receipts Reserve until such time as they are used to finance capital expenditure, used to finance expenditure under the new flexibilities around the use of Capital Receipts for transformational revenue purposes over the 3 year period 2017/18 to 2019/20 or are used to repay debt. At the balance sheet date, the Council may opt to set aside capital receipts in-hand within the Capital Adjustment Account to reduce the Capital Financing Requirement and the Minimum Revenue Provision (MRP) charge for the following financial year.

## 1.15. The Redemption of Debt

The Council makes provision for the repayment of debt in accordance with the statutory "Minimum Revenue Provision" (MRP) requirements. For supported and unsupported borrowing MRP is calculated based on a straight line basis over the expected life of the asset for which the borrowing was undertaken. This amount is transferred from the Capital Adjustment Account and reported in the Movement in Reserves Statement.

For HRA debt there is no mandatory requirement to make provision in the HRA for annual MRP payments. However, the Council will make annual voluntary provision for debt repayment in the HRA based on affordable levels in the HRA against the need for investment and delivering services in the HRA.

For assets under on-balance sheet PFI contracts and finance leases, the annual principal payment amount in the PFI or finance lease model is used as the MRP payment amount, with no additional charges above those within the contract.

Where the Council has made capital loans to third parties financed from the Councils balances, the annual repayments of principal amounts are treated as capital receipts and set aside in the Capital Adjustment Account in place of a revenue MRP charge.

## 1.16. Leases

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

1) the lease transfers ownership of the asset to the lessee by the end of the lease term;

2) the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value so as to make it reasonably certain the option will be exercised;

3) the lease term is for the major part of the economic life of the asset;

4) the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and

5) the leased assets are of such a specialised nature that only the lessee can use them without major modifications.

Should a yes response be given to two or more of the above questions, then consideration is given to treating the lease as a finance lease.

<u>The Council as Lessee</u>

Property, plant and equipment held under finance leases are initially recognised, at the inception of the lease, at fair value or, if lower, at the present value of the minimum lease payments, with a matching liability for the lease obligation to the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in calculating the Council's Revenue Account balance.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised initially as a liability and subsequently as a reduction of rentals on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the period in which they are incurred.

Where a lease is for land and buildings, the land and building components are separated. Leased land is treated as an operating lease. Leased buildings are assessed as to whether they are operating or finance leases.

<u>The Council as Lessor</u>

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Council's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the council's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

## 1.17. Government Grants and Contributions

<u>Revenue Grants</u>

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution and there is reasonable assurance that the monies will be received. If there are outstanding conditions on the grant income the income is held on the Balance Sheet as a Government debtor/creditor. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant and New Homes Bonus) are credited to the foot of the Comprehensive Income and Expenditure Statement after Net Operating Expenditure.

<u>Capital Grants</u>

Grants and contributions relating to capital expenditure shall be accounted for on an accruals basis, and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition(s) (as opposed to restrictions) that the Council has not satisfied.

Where a capital grant or contribution (or part thereof) has been recognised as income in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution has been incurred at the Balance Sheet date, the grant or contribution shall be transferred from the General Fund (or Housing Revenue Account) to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure. This transfer shall be reported in the Movement in Reserves Statement.

Community Infrastructure Levy

The Council has elected to charge Community Infrastructure Levy (CIL) with effect from 1 January 2012. The levy applies to planning applications for the following types of development:

- The formation of one or more new dwellings, (including holiday lets), either through conversion or new build, regardless of size (unless it is 'affordable housing'); or
- The establishment of new residential floor space (including extensions and replacements) of 100sqm or above.

The Council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund infrastructure projects. This will largely be capital expenditure and includes roads and other transport schemes, flood defences, schools and other education facilities, medical facilities, sporting and recreation facilities and open spaces. Five percent of CIL charges will be used to meet the administrative costs of operating the levy.

CIL is received without outstanding conditions; it is therefore recognised in the Comprehensive Income and Expenditure Statement in accordance with the Council CIL instalment policy, following commencement date of the chargeable development in accordance with the accounting policy for government grants and contributions set out above.

The only exception for this is CIL monies received on developments where the CIL Liability Notice has been issued after 25th April 2013. On these receipts 15% of gross receipt or 25% in areas with a statutory Neighbourhood Plan in place; is treated as the Neighbourhood Fund element. The Neighbourhood Fund is the portion of CIL provided directly to Town and Parish Councils to be used for the provision, improvement, replacement, operation or maintenance of infrastructure or anything else which is concerned with addressing the demands that development places on an area.

## 1.18. Financial Assets

The Council holds financial assets in the form of loans and receivables. These are assets that have fixed or determinable payments but are not quoted in an active market. The loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable, adjusted for accrued interest receivable at the year end. Interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has made a number of loans to individuals at less than market rates (soft loans). Ordinarily when soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest would then be credited at a marginally higher effective rate of interest than the rate receivable from the individual, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance would be managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement. However, the soft loans that the Council has made are not material to the accounts so the impact has not been incorporated into the Core Financial Statements, instead Note 20 to the Core Financial Statements provides details about these soft loans.

### 1.19. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the Council has, this means the amount presented in the Balance Sheet is the outstanding principal repayable, adjusted for accrued interest payable at the year end. Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

## 1.20. Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year. The reserve is then appropriated back into the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

## 1.21. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by the transfer of economic benefits, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes apparent that a transfer of economic benefits is not required, the provision is reversed and credited back to the relevant service.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but any material liabilities will be disclosed in a separate note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts if it is probable that there will be an inflow of economic benefits or service potential and the sum is material to the accounts.

## 1.22. Inventories

Inventories and stock are valued at the lower of cost price or net realisable value.

## 1.23. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2017/18. The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

## 1.24. Group Accounts

The Council has financial relationships with a number of entities and partnerships and, therefore, is required to prepare Group Accounts, in addition to its main financial statements. All of the financial relationships within the scope of Group Accounts have been assessed.

The Council has accounted for Group Accounts in accordance with IFRS 3 - Business Combination, IFRS10 – Consolidated Financial Statements, IFRS 11 - Joint Arrangements, IFRS12 – Disclosure of Interest in Other Entities, IAS 27 - Separate Financial Statements, IAS28 - Investments in Associates and Joint Ventures except where interpretations or adaptations to fit the public sector have been detailed in the Code of Practice on Local Authority Accounting. Subsidiaries and joint ventures have been consolidated within the Council's accounts on a cost basis, and accounting policies have been aligned between the Council and the companies consolidated in the Group.

## 1.25. Value Added Tax (VAT)

Only irrecoverable VAT is included in revenue and capital expenditure. All VAT receivable is excluded from income.

## 1.26. Employee Benefits

The Council accounts for employee benefits in accordance with the requirements of IAS 19 – Employee Benefits. This covers short-term employee benefits such as salaries, annual leave and flexi leave, termination benefits and post-employment benefits such as pension costs.

In accounting for annual leave the Council has categorised the staff into teachers and other staff. Teaching staff have been accounted for on the basis that working during term time entitles them to paid leave during the holidays e.g. working the Spring Term entitles them to paid Easter holidays. An accrual has been calculated based on the untaken holiday entitlement relating to the Spring Term. An accrual has been calculated for other staff based on the amount of untaken leave as at 31 March.

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. The cost of these are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure statement.

Employees of the Council are members of three separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE);
- The NHS Pensions Scheme, administered by NHS Pensions;
- The Local Government Pensions Scheme, administered by Shropshire Council.

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Council. However, the arrangements for the Teachers' scheme and the NHS scheme mean that liabilities for these benefits cannot ordinarily be identified specifically to the Council. The schemes are therefore accounted for as if they were defined contribution schemes and no liability for future payments of benefits is recognised in the Balance Sheet. The relevant service lines in the Comprehensive Income and Expenditure Statement are charged with the employer's contributions payable to the two schemes in the year.

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Shropshire County Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the indicative rate of return on high quality corporate bonds of appropriate duration)
- The assets of the Shropshire County Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:
    - ➢ quoted securities – current bid price
    - ➢ unquoted securities – professional estimate
    - ➢ unitised securities – current bid price
    - ➢ property – market value.

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
    - ➢ current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs

- net interest on the net defined benefit liability (asset), i.e. net interest expense for the Council – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- Contributions paid to the Shropshire County Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

## 1.28. Foreign Currency Transactions

Foreign currency transactions are accounted for on the basis of the equivalent sterling value of the underlying transaction, by applying the spot exchange rate at the date of the transaction.

## 1.29. Private Finance Initiative (PFI) Schemes

PFI contracts are agreements to receive services, where the PFI contractor has responsibility for making available the assets needed to provide the services. The Council pays the contractor a payment, which is called a unitary charge, for the services delivered under the contract.

The Council has two PFI projects: the Quality in Community Services (QICS) PFI and the Waste Services PFI. Further details of these PFI projects are set out later in the document. The Council is deemed to control the services provided under these two PFI schemes, and as ownership of property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the operational assets used under the contracts on its balance sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. For the QICS scheme, the liability was written down by an initial capital contribution of £2.5m. At the commencement of the Waste contract the Council made various existing waste infrastructure assets available to the contractor. Under the Waste scheme, not all property, plant and equipment scheduled to be provided in the initial years of the contract has been provided and as a result part of the payments made to the scheme operator have been accounted for as a prepayment, with a corresponding entry also made to set aside the prepayment element of the unitary payment in the Capital Adjustment Account.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- **Fair value of the services received during the year** – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- **Finance cost** – an interest charge as a percentage (based on the Internal Rate of Return of the scheme) of the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **Contingent rent** – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- **Payment towards liability** – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease)
- **Lifecycle replacement costs** – proportion of amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out. On recognising the prepayment for lifecycle replacement costs a corresponding entry is also made to set aside the prepayment element of the unitary payment in the Capital Adjustment Account. Where works are carried out earlier than planned they are recognised as additions to Property, Plant and Equipment balanced by a temporary increase in the

finance lease liability. When the programmed payment takes place the liability is written down.

## 1.30. Accounting for Council Tax and Non Domestic Rates

The Council Tax income included in the Comprehensive Income & Expenditure Statement is the accrued income for the year, and not the amount required under regulation to be transferred from the Collection Fund to the General Fund (the Collection Fund Demand). The difference is taken to the Collection Fund Adjustment Account through the Movement in Reserves Statement.

As the collection of Council Tax for preceptors (the West Mercia Police and Crime Commissioner, and Shropshire & Wrekin Fire & Rescue Authority) is an agency arrangement, the cash collected belongs proportionately to Shropshire Council as the billing authority and to the preceptors. This gives rises to a debtor or creditor position for the difference between cash collected from tax-payers and cash paid to preceptors under regulation.

In relation to Non-Domestic Rates, Shropshire Council collects income due as an agency arrangement. As with council tax, the cash collected belongs proportionately to Shropshire Council as the billing authority, and to Central Government and Shropshire & Wrekin Fire & Rescue Authority as preceptors. This gives rise to a debtor or creditor position for the difference between cash collected from tax-payers and cash paid to preceptors under regulation.

## 1.31. Accounting for Local Authority Maintained Schools

All Local Authority Maintained Schools in the Council area are considered to be entities controlled by the Council. In order to simplify the consolidation process and avoid consolidating in Group Accounts a considerable number of separate, relatively small entities; the Council’s single entity financial statements include all the transactions of Local Authority Maintained Schools i.e. income, expenditure, assets, liabilities, reserves and cash flows of the schools.

The Council has the following types of maintained schools under its control:

- Community
- Voluntary Aided
- Voluntary Controlled
- Foundation

The Council recognises on balance sheet the non-current assets of schools where the Council legally owns the assets or where the school is in the legal ownership of a non religious body, on the basis that they are the assets of the school and need to be consolidated in to the Council’s accounts.

Community schools are owned by the Council and therefore recognised on the balance sheet.

The majority of Voluntary Aided and Voluntary Controlled schools in the Council area are owned by the respective Diocese. There is currently no legal arrangement in place for the

School/Council to use the Diocese owned schools. The School/Council uses the school building to provide education under the provisions of the School Standards and Framework Act 1998. On this basis the school assets are used under "mere" licences and the assets are not recognised on the Council's balance sheet. The only exception to this is there are a small number of schools that should have transferred to Diocese under Education Legislation; but the legal transfer has not been completed. These are still recognised in the Council balance sheet with an additional note disclosing that they are due to transfer.

Foundation schools owned by the Diocese are not recognised on the Council balance sheet as the position is the same as Voluntary Aided and Voluntary Controlled. Where ownership lies with the school or the school's Governing Body the School is recognised on the Council's Balance Sheet. There are a small number of schools who have recently changed their status to Foundation as part of local area Education Trusts. As yet no legal transfers have taken place of school land and buildings. On the assumption that these trusts will constitute the Governing Bodies of these schools, the schools are to remain on-balance sheet. This will be reviewed when the legal transfers are agreed in case the position is different.

Academy schools are not maintained schools controlled by the Council and as such are not accounted for in the Council's Accounts. Schools in Council ownership (Community Schools) which become Academies are provided to the Academy on a 125 year peppercorn lease. When schools transfer to Academy status the assets are written out of the balance sheet as at the date that the asset transfers. Additional notes are included in the accounts disclosing details of any schools where approval by the Department of Education to transfer the School to Academy has been granted, but the school has not transferred by the balance sheet date.

## 1.32. Fair Value Measurement

The authority measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or
b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

### 1.33. Unquoted Equity Investments

The Council holds 99% of the units in a Jersey Property Unit Trust. The other 1% is held by wholly owned subsidiary of the Council - SSC NO.1 LTD a company registered in England and Wales. The units were acquired following a Royal Institution of Chartered Surveyors Red Book valuation from Colliers International during the year and the cost of acquisition associated with it is reflected in the value in the financial statements. The Council and SSC NO.1 LTD are the beneficial owners of the property, through the trust, the nature of the trust is such that the Council has overall control of the trust through reserved matters. The trustees, who have to be resident in Jersey, make all day to day decisions affecting the trust in the best interests of the unit holders. The trust deeds set out that income and expenditure accrues to the unitholders as it arises and it is presented as such within these financial statements.

## 2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2018/19 Code:

- Amendments to IFRS 9 Financial Instruments

- Amendments to IFRS 15 Revenue from Contracts with Customers

- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses

- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

## 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty regarding future levels of funding for local government. The Council has undertaken the rigorous challenge of reviewing its spending and as a result has ensured appropriate savings are built into its medium term financial plans. The Council has determined that this uncertainty regarding future funding levels is not known in sufficient enough detail to provide an indication that its assets would be impaired or services reduced significantly. Any action to reduce spending would be taken in a planned and systematic way to reduce the impact on service delivery.

- The Council takes judgements over the element of control in terms of deciding which assets should be on our balance sheet. One such judgement has been taken around Local Authority Maintained schools and particularly Voluntary Aided, Voluntary Controlled and Foundation schools that are not owned by the Council. The Council recognises the land and buildings used by schools in line with the provisions of the Code of Practice. It states that property used by local authority maintained schools should be recognised in accordance with the asset recognition tests relevant to the arrangements that prevail for the property. The Council recognises the school's land and buildings on its Balance Sheet where it legally owns the assets or the school Governing Body own the school. Where the land and building assets used by the school are owned by an entity other than the Council, school or school Governing Body then they are not included on the Council's Balance Sheet.

  The Council has completed an assessment of the different types of schools it controls within the Shropshire Council area to determine how these should be accounted for. The accounting treatment is detailed in the accounting policies (see 1.31).

- The Council is part of the Marches Local Enterprise Partnership (LEP) along with Herefordshire and Telford & Wrekin. The Council acts as accountable body for the LEP and therefore receives grant income on behalf of the LEP and processes expenditure in line with the grant schemes. The Council has concluded that the role of accountable body is to be deemed as an agent, and therefore the net grant held should not be accounted within the Council's accounts. Further details are provided at Note 41.

## 4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

There is a risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2018:

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Property, Plant & Equipment | Full valuation is carried out a minimum of every 5 years. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year. | There is a risk of material adjustment in the year when the property is revalued. |
| | Estimates of remaining useful economic life are provided as part of the valuation and are used to calculate the depreciation charge on a straightline basis. | There is a risk that annual depreciation charges are over or under stated and also correspondingly the NBV of the asset. This could also result in a risk of material adjustment in the year when the property is revalued. |
| Dwellings | The value of dwellings held on the balance sheet is subject to impairment due to an estimated increase or decrease in house prices. The Council accounting policy is to use ONS data as the basis for this estimate. | The valuation of dwellings may require a material adjustment in the following year if ONS data is not a reliable estimate. |
| NDR Appeals Provision | The provision set aside for Non Domestic Rate appeals is estimated based on the number of outstanding appeals as per the Valuation Office and then the percentage rateable value change of successful appeals is applied. An estimate is then calculated for unlodged appeals on the new rating list. | There is a risk that successful appeals will be significantly more than the estimate leading to an increased demand on the NDR collection fund in the year. |
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. | The effects on the net pension liability of changes in individual assumptions can be measured. For instance a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £21.00m. |
| Fair value measurements | When the fair values of financial assets and financial liabilities cannot be measured or based on quoted prices in active markets (i.e. level 1 inputs), their fair value is measured using valuation techniques. Where possible, the inputs to these valuation techniques are based on observable data, but where this is not possible judgement is required in establishing fair values. These judgements typically include considerations such as uncertainty and risk. However, changes in the assumptions used could affect the fair value of the Council's assets and liabilities. Where level 1 inputs are not available, the Council employs relevant experts to identify the most appropriate valuation techniques to determine fair value (for example for investment properties, the authority's chief valuation officer). Information about the valuation techniques and inputs used in determining the fair value of the Council's assets and liabilities is disclosed in notes to below. | The authority uses the discounted cash flow model to measure the fair value of some of its investment properties and financial assets. The significant unobservable inputs used in the fair value measurement include management assumptions regarding rent growth, vacancy levels (for investment properties) and discount rates – adjusted for regional factors (for both investment properties and some financial assets). Significant changes in any of the unobservable inputs would result in a significantly lower or higher fair value measurement for the investment properties and financial assets. |

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Accruals | Estimates of known future expenses or income where amounts are not yet certain are accrued in the year that they relate to. The proportion of estimates within the accruals processed for debtors and creditors are:<br>• Debtors 6%<br>• Creditors 5% | The expense or the income could be either higher or lower than expected. A 10% increase in the estimates for debtors would result in an additional debtor of £0.055m. A 10% increase from the estimate for creditors would result in an additional creditor of £0.101m. |

## 5. EVENTS AFTER THE REPORTING PERIOD

The Statement of Accounts was authorised for issue by the Head of Finance, Governance & Assurance on 31 May 2018. Events taking place after this date are not reflected in the financial statement or notes.

On the 17th May 2018, the Council approved an amendment to the Council's Pay and Reward Policy. The amendment included an increase in pay for all staff from 1st October 2018. The actuarial valuation on the Local Government Pension Scheme uses assumptions for pay awards in order to inform calculations of future pension liabilities contained within the Statement of Accounts. The increase in pay agreed within the Pay and Reward Policy is greater than the 1% pay award used within the actuarial valuation and it is anticipated that this would increase the pension fund liability by approximately £11m or 0.8%. This policy change is considered as a non adjusting event after the reporting period and so the figures in the Statement of Accounts have not been amended to reflect this.

At balance sheet date, Department of Education approval had been granted to eleven schools to convert to Academy status. Two schools have converted to Academy School status in early 2018/19 financial year. One of these schools was in Council freehold ownership and the value of the school and associated facilities in the 2017/18 accounts is £1.30m. This is considered as a non-adjusting event after the reporting date.

## 6. EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's service areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

| 2016/17 | | | | | | 2017/18 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Net expenditure reported for resource management £000 | Adjustment to arrive at net amount chargeable to the General Fund and HRA balances £000 | Net Expenditure Chargeable to the General Fund and HRA Balances £000 | Adjustments between the Funding and Accounting Basis £000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £000 | | Net expenditure reported for resource management £000 | Adjustment to arrive at net amount chargeable to the General Fund and HRA balances £000 | Net Expenditure Chargeable to the General Fund and HRA Balances £000 | Adjustments between the Funding and Accounting Basis £000 | Net Expenditure in the Comprehensive Income and Expenditure Statement £000 |
| 85,799 | (1,315) | 84,484 | 390 | 84,874 | Adult Services | 92,032 | (4,699) | 87,333 | 732 | 88,065 |
| 0 | (6,123) | (6,123) | (2,049) | (8,172) | Local Authority Housing | 0 | (2,100) | (2,100) | (6,840) | (8,940) |
| 0 | 0 | 0 | (28,230) | (28,230) | Exceptional costs relating to revaluation gain on Housing Dwellings | 0 | 0 | 0 | 0 | 0 |
| 51,298 | (4,568) | 46,730 | 6,335 | 53,065 | Children's Services | 53,044 | (5,844) | 47,200 | 7,810 | 55,010 |
| 92,335 | (42,080) | 50,255 | 27,539 | 77,794 | Place & Enterprise | 91,762 | (40,863) | 50,899 | 26,873 | 77,772 |

# NOTES TO THE CORE FINANCIAL STATEMENTS

| 2016/17 Net expenditure reported for resource management £000 | 2016/17 Adjustment to arrive at net amount chargeable to the General Fund and HRA balances £000 | 2016/17 Net Expenditure Chargeable to the General Fund and HRA Balances £000 | 2016/17 Adjustments between the Funding and Accounting Basis £000 | 2016/17 Net Expenditure in the Comprehensive Income and Expenditure Statement £000 | | 2017/18 Net expenditure reported for resource management £000 | 2017/18 Adjustment to arrive at net amount chargeable to the General Fund and HRA balances £000 | 2017/18 Net Expenditure Chargeable to the General Fund and HRA Balances £000 | 2017/18 Adjustments between the Funding and Accounting Basis £000 | 2017/18 Net Expenditure in the Comprehensive Income and Expenditure Statement £000 |
|---|---|---|---|---|---|---|---|---|---|---|
| 6,698 | (1,174) | 5,524 | 514 | 6,038 | Public Health | 4,999 | (1,023) | 3,976 | 219 | 4,195 |
| 2,169 | 1,756 | 3,925 | 7 | 3,932 | Resources & Support | 5,094 | (1,823) | 3,271 | 2,576 | 5,847 |
| (34,596) | 48,481 | 13,885 | (11,957) | 1,928 | Corporate | (41,471) | 51,119 | 9,648 | (9,491) | 157 |
| **203,703** | **(5,023)** | **198,680** | **(7,451)** | **191,229** | **Net Cost of Services** | **205,460** | **(5,233)** | **200,227** | **21,879** | **222,106** |
| 0 | (201,235) | (201,235) | 12,060 | (189,175) | Other Income and Expenditure | 0 | (206,013) | (206,013) | (13,090) | (219,103) |
| **203,703** | **(206,258)** | **(2,555)** | **4,609** | **2,054** | **Surplus or Deficit** | **205,460** | **(211,246)** | **(5,786)** | **8,789** | **3,003** |
| | | 85,034 | | | Opening General Fund and HRA Balance | | | 87,589 | | |
| | | 2,555 | | | Less/Plus Surplus or (Deficit) on General Fund and HRA Balance in Year | | | 5,786 | | |
| | | **87,589** | | | **Closing General Fund and HRA Balance at 31 March*** | | | **93,375** | | |

* For a split of this balance between the General Fund and the HRA – see the Movement in Reserves Statement

## 7. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

| 2017/18 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Adjustments from management reporting and General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts** | **Capital items reported at Directorate level (note 1) £000** | **Pension items reported at Directorate level (note 1) £000** | **Reserves reported at Directorate level (note 1) £000** | **Interest Payable and Receivable reported at Directorate level (note 2) £000** | **Reallocation of traded services and internal recharges (note 2) £000** | **Investment properties/Levies reported at Directorate level (note 2) £000** | **Other Adjustments (note 3) £000** | **Total to arrive at amount charged to the general fund & HRA £000** | **Adjustments for Capital Purposes £000** | **Net change for the Pensions Adjustments £000** | **Other Differences £000** | **Total Adjustment between funding and accounting basis £000** |
| Adult Services | 78 | (832) | (3,935) | 3 | (13) | 0 | | **(4,699)** | (78) | 810 | 0 | **732** |
| Local Authority Housing | 0 | 0 | 0 | 0 | 0 | 0 | (2,100) | **(2,100)** | (6,840) | 0 | 0 | **(6,840)** |
| Exceptional costs relating to revaluation gain on Housing Dwellings | 0 | 0 | 0 | 0 | 0 | 0 | | **0** | 0 | 0 | 0 | **0** |
| Children's Services | (5,663) | (2,267) | 1,695 | (152) | 381 | 0 | 162 | **(5,844)** | 5,419 | 2,391 | 0 | **7,810** |
| Place & Enterprise | (29,772) | (1,099) | 785 | (11,464) | (58) | 723 | 22 | **(40,863)** | 25,817 | 1,056 | 0 | **26,873** |
| Public Health | (63) | (353) | (22) | 1 | (586) | 0 | 0 | **(1,023)** | (203) | 422 | 0 | **219** |
| Resources & Support | (2,296) | (276) | (12) | 0 | 761 | 0 | 0 | **(1,823)** | 2,298 | 278 | 0 | **2,576** |
| Corporate | 37,743 | 5,343 | (4,221) | (10,327) | (592) | 0 | 23,173 | **51,119** | (5,481) | (3,684) | (325) | **(9,490)** |
| **Net Cost of Services** | **27** | **516** | **(5,710)** | **(21,939)** | **(107)** | **723** | **21,257** | **(5,233)** | **20,932** | **1,273** | **(325)** | **21,880** |
| Other Income and Expenditure from the Expenditure and Funding Analysis | (27) | (516) | (269) | 21,939 | 107 | (723) | (226,524) | **(206,013)** | (29,075) | 11,136 | 4,849 | **(13,090)** |
| **Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services** | **(0)** | **(0)** | **(5,979)** | **0** | **(0)** | **(0)** | **(205,267)** | **(211,246)** | **(8,143)** | **12,409** | **4,524** | **8,790** |

| Adjustments from management reporting and General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts | Capital items reported at Directorate level (note 1) £000 | Pension items reported at Directorate level (note 1) £000 | Reserves reported at Directorate level (note 1) £000 | Interest Payable and Receivable reported at Directorate level (note 2) £000 | Reallocation of traded services and internal recharges (note 2) £000 | Investment properties/Levies reported at Directorate level (note 2) £000 | Other Adjustments (note 3) £000 | Total to arrive at amount charged to the general fund & HRA £000 | Adjustments for Capital Purposes £000 | Net change for the Pensions Adjustments £000 | Other Differences £000 | Total Adjustment between funding and accounting basis £000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016/17 | | | | | | | | | | | |
| Adult Services | (663) | 97 | (1,201) | 1 | 451 | 0 | 0 | **(1,315)** | 550 | (160) | 0 | **390** |
| Local Authority Housing | 0 | 0 | 0 | 0 | 0 | 0 | (6,123) | **(6,123)** | (2,049) | 0 | 0 | **(2,049)** |
| Exceptional costs relating to revaluation gain on Housing Dwellings | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | (28,230) | 0 | 0 | **(28,230)** |
| Children's Services | (6,794) | 306 | 1,887 | (152) | 2 | 0 | 183 | **(4,568)** | 6,137 | 198 | 0 | **6,335** |
| Place & Enterprise | (31,810) | 127 | 802 | (11,496) | (545) | 841 | 1 | **(42,080)** | 27,728 | (189) | 0 | **27,539** |
| Public Health | (657) | 48 | 22 | 0 | (587) | 0 | 0 | **(1,174)** | 590 | (76) | 0 | **514** |
| Resources & Support | (7) | 26 | 1,546 | 0 | 191 | 0 | 0 | **1,756** | 7 | 0 | 0 | **7** |
| Corporate | 41,344 | (677) | (1,103) | (10,745) | 131 | 0 | 19,531 | **48,481** | (10,501) | (1,136) | (320) | **(11,957)** |
| **Net Cost of Services** | **1,413** | **(73)** | **1,953** | **(22,392)** | **(357)** | **841** | **13,592** | **(5,023)** | **(5,768)** | **(1,363)** | **(320)** | **(7,451)** |
| Other Income and Expenditure from the Expenditure and Funding Analysis | (1,413) | 73 | (476) | 22,392 | 357 | (841) | (221,327) | **(201,235)** | 5,143 | 12,993 | (6,076) | **12,060** |
| **Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services** | **0** | **0** | **1,477** | **0** | **0** | **0** | **(207,735)** | **(206,258)** | **(625)** | **11,630** | **(6,396)** | **4,609** |

Note 1) For resource management purposes, the authority includes depreciation, pension charges in relation to IAS19 debits and credits in its directorate reporting, however this needs to be removed as it is not included in the net expenditure chargeable to the general fund and HRA balances.

Note 2) The authority includes income and expenditure in relation to investment properties, interest payable and receivable, levies and trading accounts within the Directorates however this is reported in the financial statements below the cost of services line and therefore the above table shows these items being reallocated. The income and expenditure for Corporate Landlord and Passenger Transport is also adjusted within the amendments for trading/internal recharges.

Note 3) Corporate Funding and Housing Revenue Account are not reported to management as part of the Directorate reporting therefore these items have been included as adjustments in the above table.

**Adjustments for Capital Purposes**

1) Adjustments for capital purposes – this column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions or for which conditions were satisfied in the year.

**Net Change for the Pensions Adjustments**

2) Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure – the net interest in the defined benefit liability is charged to the CIES.

**Other Differences**

3) Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

## 8. EXPENDITURE AND INCOME ANALYSED BY NATURE

The Council's expenditure and income is analysed as follows:

| Expenditure/Income | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Expenditure** | | |
| Employee benefits expenses | 196,715 | 204,202 |
| Other service expenses | 354,234 | 345,391 |
| Support service recharges | 33,449 | 36,701 |
| Depreciation, amortisation, impairment | 35,748 | 21,125 |
| Interest payments | 26,603 | 27,301 |
| Precepts and levies | 7,277 | 6,780 |
| Payments to Housing Capital Receipts Pool | 587 | 591 |
| Gain on the disposal of assets | 21,852 | 35,789 |
| **Total Expenditure** | **676,465** | **677,880** |
| **Income** | | |
| Fees, charges and other service income | (161,947) | (157,678) |
| Interest and investment income | (1,733) | (1,974) |
| Income from council tax, non-domestic rates | (187,932) | (185,696) |
| Government grants and contributions | (321,850) | (330,478) |
| **Total Income** | **(673,462)** | **(675,826)** |
| **Surplus or Deficit on the Provision of Services** | **3,003** | **2,054** |

## 9. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

| 2017/18 | General Fund Balance £000 | Housing Revenue Account £000 | Major Repairs Reserve £000 | Capital Receipts Reserves £000 | Capital Grants Unapplied £000 | Movement in Unusable Reserves £000 |
|---|---|---|---|---|---|---|
| **Adjustments to the Revenue Resources:** | | | | | | |
| *Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:* | | | | | | |
| Pension costs | 12,289 | 0 | 0 | 0 | 0 | (12,289) |
| Financial instruments | (325) | 0 | 0 | 0 | 0 | 325 |
| Council tax and NDR | 4,849 | 0 | 0 | 0 | 0 | (4,849) |
| Holiday pay | 120 | 0 | 0 | 0 | 0 | (120) |
| Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure | 16,331 | (1,497) | 3,994 | 0 | 10,016 | (28,844) |
| **Total Adjustments to Revenue Resources** | **33,264** | **(1,497)** | **3,994** | **0** | **10,016** | **(45,777)** |
| **Adjustments between Revenue and Capital Resources:** | | | | | | |
| Transfer of non-current asset proceeds from revenue to the Capital Receipts Reserve | (7,466) | (2,930) | 0 | 11,042 | 0 | (646) |
| Administrative costs of non-current asset disposals | 0 | 47 | 0 | (47) | 0 | 0 |
| Payments to the government housing receipts pool | 587 | 0 | 0 | (587) | 0 | 0 |
| Pooling of HRA resources from revenue to the Major Repairs Reserve | 0 | 0 | 0 | 0 | 0 | 0 |
| Statutory provision for the repayment of debt | (7,993) | 0 | 0 | 0 | 0 | 7,993 |
| Capital expenditure financed from revenue balances | (1,985) | (3,238) | 0 | 0 | 0 | 5,223 |
| **Total Adjustments between Revenue and Capital Resources** | **(16,857)** | **(6,121)** | **0** | **10,408** | **0** | **12,570** |
| **Adjustments to Capital Resources:** | | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | 0 | 0 | 0 | (10,436) | 0 | 10,436 |
| Use of the Major Repairs Reserve to finance capital expenditure | 0 | 0 | (1,849) | 0 | 0 | 1,849 |
| Application of capital grants to finance capital expenditure | 0 | 0 | 0 | 0 | (164) | 164 |
| Cash payments in relation to deferred capital receipts | 0 | 0 | 0 | 28 | 0 | (28) |
| **Total Adjustments to Capital Resources** | **0** | **0** | **(1,849)** | **(10,408)** | **(164)** | **12,421** |
| **Total Adjustments** | **16,407** | **(7,618)** | **2,145** | **0** | **9,852** | **(20,786)** |

| 2016/17 Comparative Figures | General Fund Balance £000 | Housing Revenue Account £000 | Major Repairs Reserve £000 | Capital Receipts Reserves £000 | Capital Grants Unapplied £000 | Movement in Unusable Reserves £000 |
|---|---|---|---|---|---|---|
| **Adjustments to the Revenue Resources:** | | | | | | |
| *Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:* | | | | | | |
| Pension costs | 11,307 | 0 | 0 | 0 | 0 | (11,307) |
| Financial instruments | (320) | 0 | 0 | 0 | 0 | 320 |
| Council tax and NDR | (6,076) | 0 | 0 | 0 | 0 | 6,076 |
| Holiday pay | 323 | 0 | 0 | 0 | 0 | (323) |
| Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure | 48,954 | (29,202) | 3,549 | 0 | 5,178 | (28,479) |
| **Total Adjustments to Revenue Resources** | **54,188** | **(29,202)** | **3,549** | **0** | **5,178** | **(33,713)** |
| **Adjustments between Revenue and Capital Resources:** | | | | | | |
| Transfer of non-current asset proceeds from revenue to the Capital Receipts Reserve | (3,417) | (1,872) | 0 | 5,786 | 0 | (497) |
| Administrative costs of non-current asset disposals | 0 | 36 | 0 | (36) | 0 | 0 |
| Payments to the government housing receipts pool | 591 | 0 | 0 | (591) | 0 | 0 |
| Pooling of HRA resources from revenue to the Major Repairs Reserve | 0 | 0 | 0 | 0 | 0 | 0 |
| Statutory provision for the repayment of debt | (8,009) | 0 | 0 | 0 | 0 | 8,009 |
| Capital expenditure financed from revenue balances | (7,706) | 0 | 0 | 0 | 0 | 7,706 |
| **Total Adjustments between Revenue and Capital Resources** | **(18,541)** | **(1,836)** | **0** | **5,159** | **0** | **15,218** |
| **Adjustments to Capital Resources:** | | | | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | 0 | 0 | 0 | (5,184) | 0 | 5,184 |
| Use of the Major Repairs Reserve to finance capital expenditure | 0 | 0 | (3,982) | 0 | 0 | 3,982 |
| Application of capital grants to finance capital expenditure | 0 | 0 | 0 | 0 | (216) | 216 |
| Cash payments in relation to deferred capital receipts | 0 | 0 | 0 | 25 | 0 | (25) |
| **Total Adjustments to Capital Resources** | **0** | **0** | **(3,982)** | **(5,159)** | **(216)** | **9,357** |
| **Total Adjustments** | **35,647** | **(31,038)** | **(433)** | **0** | **4,962** | **(9,138)** |

## 10. TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2017/18.

| | Balance at 31 March 2016 £000 | Transfers Out 2016/17 £000 | Transfers In 2016/17 £000 | Balance at 31 March 2017 £000 | Transfers Out 2017/18 £000 | Transfers In 2017/18 £000 | Balance at 31 March 2018 £000 |
|---|---|---|---|---|---|---|---|
| Sums set aside for major schemes, such as capital developments, or to fund major reorganisations | 14,036 | (12,781) | 7,913 | 9,168 | (103) | 3,577 | 12,642 |
| Insurance Reserves | 3,411 | 0 | 440 | 3,851 | (4) | 319 | 4,166 |
| Reserves of trading and business units | 607 | (103) | 130 | 634 | (56) | 122 | 700 |
| Reserves retained for service departmental use | 33,581 | (47,506) | 55,919 | 41,994 | (17,004) | 19,969 | 44,959 |
| School Balances | 9,206 | (7,517) | 6,524 | 8,213 | (1,907) | 1,066 | 7,372 |
| **Total** | **60,841** | **(67,907)** | **70,926** | **63,860** | **(19,074)** | **25,053** | **69,839** |

**RESERVES**

**Sums set aside for major schemes, such as capital developments, or to fund major reorganisations** – includes redundancy reserve, and specific reserves to fund capital and major projects including the university and other service transformation within the Council.

**Insurance Reserves –** includes fire liability and motor insurance reserves to fund the Council's future self insurance liabilities.

**Reserves of trading and business units** – includes any balance carried forward in relation to Shire Services to help smooth trading profits and losses over future years.

**Reserves retained for service departmental use** – includes a number of specific earmarked reserves for known service expenditure in future years. Significant balances include the Financial Strategy reserve, an IT expenditure reserve and a reserve including unringfenced revenue grants that have not been spent.

**School Balances** – includes unspent balances of budgets delegated to individual schools.

A breakdown of all specific earmarked reserve balances is shown in the 2017/18 Revenue Outturn report.

## 11. OTHER OPERATING EXPENDITURE

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Parish Council Precepts | 7,155 | 6,659 |
| Levies | 122 | 120 |
| Payments to the Government Housing Capital Receipts Pool | 587 | 591 |
| (Gains)/losses on the disposal of non-current assets* | 21,149 | 35,442 |
| (Gains)/losses on change in valuation of non-current assets | 702 | 347 |
| | **29,715** | **43,159** |

* Losses on disposal in 2016/17 and 2017/18 include the transfer of schools to Academy which has resulted in a significant asset value being written out of the balance sheet. Further details are provided at Note 14.

## 12. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Interest payable and similar charges | 26,603 | 27,302 |
| Pensions interest cost and expected return on pensions assets | 10,590 | 13,119 |
| Interest receivable and similar income | (1,733) | (1,974) |
| Income and expenditure in relation to investment properties and changes in their fair value | (9,687) | (1,741) |
| (Surpluses)/deficits on Trading Activities | (84) | (466) |
| | **25,689** | **36,240** |

## 13. TAXATION AND NON SPECIFIC GRANT INCOMES

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Council tax income | (143,860) | (135,883) |
| Non domestic rates | (47,818) | (49,813) |
| Non ringfenced government grants | (40,059) | (51,281) |
| Capital grants and contributions | (42,770) | (31,597) |
| | **(274,507)** | **(268,574)** |

## 14. PROPERTY, PLANT & EQUIPMENT

The figures below provide information on the movement of non-current assets held by the Council during 2017/18.

| | Council Dwellings £000 | Other Land and Buildings £000 | Vehicles Plant, & Equipment £000 | Infrastructure £000 | Community Assets £000 | Surplus Assets £000 | Assets Under Construction £000 | Total £000 | PFI Assets Included in Property, Plant & Equipment £000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | | | |
| At 1 April 2017 | **190,088** | **588,580** | **18,079** | **478,771** | **3,650** | **1,935** | **6,096** | **1,287,199** | **132,764** |
| Additions | 6,483 | 3,076 | 3,206 | 24,703 | 7 | 0 | 4,291 | **41,766** | 2,114 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 30 | 7,223 | 0 | 0 | 0 | 225 | 0 | **7,478** | 1,517 |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (225) | 2,415 | 0 | 0 | 0 | 50 | 0 | **2,240** | 1,804 |
| Derecognition – disposals | (1,971) | (19,714) | (185) | 0 | 0 | 0 | (458) | **(22,328)** | 0 |
| Derecognition – other | (221) | (2,349) | (2,963) | (24) | (84) | 0 | 0 | **(5,641)** | (2,369) |
| Assets reclassified (to)/from Held for Sale | (657) | (1,377) | 0 | 0 | 0 | 101 | 0 | **(1,933)** | 0 |
| Other movements in cost or valuation | 208 | 439 | (17) | 3,879 | 0 | 0 | (4,595) | **(86)** | (7) |
| At 31 March 2018 | **193,735** | **578,293** | **18,120** | **507,329** | **3,573** | **2,311** | **5,334** | **1,308,695** | **135,823** |
| **Depreciation and Impairments** | | | | | | | | | |
| At 1 April 2017 | **0** | **(29,842)** | **(5,452)** | **(143,376)** | **(1,164)** | **(1,019)** | **0** | **(180,853)** | **(14,420)** |
| Depreciation charge for 2017/18 | (3,960) | (16,451) | (2,861) | (14,143) | (191) | (12) | 0 | **(37,618)** | (5,753) |
| Depreciation written out to the Revaluation Reserve | 133 | 5,668 | 0 | 0 | 0 | 13 | 0 | **5,814** | 602 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | 3,827 | 825 | 0 | 0 | 0 | 0 | 0 | **4,652** | 203 |
| Impairment losses/(reversals) recognised in the Revaluation Reserve | 0 | (379) | 0 | 0 | 0 | 0 | 0 | **(379)** | 0 |
| Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services | 0 | (823) | 0 | 0 | 0 | 0 | 0 | **(823)** | (60) |
| Derecognition – disposals | 0 | 482 | 102 | 0 | 0 | 0 | 0 | **584** | 0 |
| Derecognition – other | 0 | 141 | 2,856 | 24 | 82 | 0 | 0 | **3,103** | 2,262 |

| | Council Dwellings £000 | Other Land and Buildings £000 | Vehicles Plant, & Equipment £000 | Infrastructure £000 | Community Assets £000 | Surplus Assets £000 | Assets Under Construction £000 | Total £000 | PFI Assets Included in Property, Plant & Equipment £000 |
|---|---|---|---|---|---|---|---|---|---|
| Other movements in depreciation and impairment | 0 | 1,434 | 7 | (0) | 0 | 0 | 0 | **1,440** | 7 |
| At 31 March 2018 | **0** | **(38,945)** | **(5,349)** | **(157,495)** | **(1,273)** | **(1,018)** | **0** | **(204,080)** | **(17,159)** |
| **NBV at 31 March 2018** | **193,735** | **539,348** | **12,771** | **349,834** | **2,300** | **1,293** | **5,334** | **1,104,615** | **118,664** |
| **NBV at 31 March 2017** | **190,088** | **558,738** | **12,627** | **335,395** | **2,486** | **916** | **6,096** | **1,106,346** | **118,344** |

The comparative movements in 2016/17 were as detailed below:

| | Council Dwellings £000 | Other Land and Buildings £000 | Vehicles Plant & Equipment £000 | Infrastructure £000 | Community Assets £000 | Surplus Assets £000 | Assets Under Construction £000 | Total £000 | PFI Assets Included in Property, Plant & Equipment £000 |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or valuation** | | | | | | | | | |
| At 1 April 2016 | **158,153** | **603,159** | **10,501** | **456,427** | **3,616** | **2,079** | **4,049** | **1,237,984** | **121,624** |
| Additions | 4,878 | 5,936 | 10,446 | 22,463 | 34 | 0 | 4,912 | **48,669** | 12,775 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | (40) | 21,694 | 0 | 0 | 0 | (350) | 0 | **21,304** | 0 |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | 26,901 | (1,018) | 0 | 0 | 0 | 0 | 0 | **25,883** | 0 |
| Derecognition – disposals | (1,275) | (35,812) | (413) | 0 | 0 | 0 | 0 | **(37,500)** | 0 |
| Derecognition – other | 0 | (2,392) | (2,478) | 0 | 0 | 0 | 0 | **(4,870)** | (1,635) |
| Assets reclassified (to)/from Held for Sale | (364) | (1,732) | 0 | 0 | 0 | (800) | 0 | **(2,896)** | 0 |
| Other movements in cost or valuation | 1,835 | (1,255) | 23 | (119) | 0 | 1,006 | (2,865) | **(1,375)** | 0 |
| At 31 March 2016 | **190,088** | **588,580** | **18,079** | **478,771** | **3,650** | **1,935** | **6,096** | **1,287,199** | **132,764** |

| | Council Dwellings £000 | Other Land and Buildings £000 | Vehicles Plant & Equipment £000 | Infrastructure £000 | Community Assets £000 | Surplus Assets £000 | Assets Under Construction £000 | Total £000 | PFI Assets Included in Property, Plant & Equipment £000 |
|---|---|---|---|---|---|---|---|---|---|
| **Depreciation and Impairments** | | | | | | | | | |
| At 1 April 2016 | **0** | **(27,983)** | **(5,408)** | **(130,816)** | **(983)** | **(10)** | **0** | **(165,200)** | **(7,449)** |
| Depreciation charge for 2016/17 | (3,522) | (16,313) | (2,709) | (12,644) | (181) | (6) | 0 | **(35,375)** | (5,563) |
| Depreciation written out to the Revaluation Reserve | 145 | 14,404 | 0 | 0 | 0 | 0 | 0 | **14,549** | 0 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | 3,377 | 229 | 0 | 0 | 0 | 0 | 0 | **3,606** | 0 |
| Impairment losses/(reversals) recognised in the Revaluation Reserve | 0 | (759) | 0 | 0 | 0 | 0 | 0 | **(759)** | 0 |
| Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services | 0 | (3,457) | 0 | 0 | 0 | (1,003) | 0 | **(4,460)** | (2,969) |
| Derecognition – disposals | 0 | 2,013 | 187 | 0 | 0 | 0 | 0 | **2,200** | 0 |
| Derecognition – other | 0 | 53 | 2,478 | 0 | 0 | 0 | 0 | **2,531** | 1,561 |
| Other movements in depreciation and impairment | 0 | 1,971 | 0 | 84 | 0 | 0 | 0 | **2,055** | 0 |
| At 31 March 2017 | **0** | **(29,842)** | **(5,452)** | **(143,376)** | **(1,164)** | **(1,019)** | **0** | **(180,853)** | **(14,420)** |
| **NBV at 31 March 2017** | **190,088** | **558,738** | **12,627** | **335,395** | **2,486** | **916** | **6,096** | **1,106,346** | **118,344** |
| **NBV at 31 March 2016** | **158,153** | **575,176** | **5,093** | **325,611** | **2,633** | **2,069** | **4,049** | **1,072,784** | **114,175** |

**Local Authority Maintained Schools**

Included in the above balances for other land and buildings are all or a significant part of 8 primary schools for which plans are being finalised with the Diocese or for which instructions have been issued, but full ownership has not yet transferred to the Diocese. This detailed work is necessary because in many circumstances the schools are now physically different and it is necessary to ensure that the transfers relate purely to the school function and not other uses which may now be on site. There is a legal obligation to transfer ownership under Education legislation (Education Act 1946 or Schools Standards and Framework 1998).

Work commenced on the first transfers in 2008/09, and further schools were identified in 2011/12, mainly as a result of Primary School Amalgamations, which resulted in the change of the category of a number of schools. These schools will be removed from the Council's balance sheet on completion of the legal transfer, of which one transfer to the Diocese was completed in 2017/18. The total net book value for these schools still included as at the balance sheet date is £18.81m.

In addition there are a number of primary schools where a small part of the site is required to transfer from the Council to the Diocese, these are mainly as a result of extensions to schools which have been built across land still in Shropshire Council ownership (e.g. former playing field land). Work is ongoing to legally transfer these further sections and they are not included in the Council's balance sheet.

One secondary school is listed as Voluntary Controlled schools on the Department of Education list. Under the School Standards and Framework Act 1998 ('the 1998 Act') the school buildings and hard standing should be transferred to the trustees of the school. This should also be transferred to the governing body, and is still to be actioned, but may be overtaken by any plans to transfer this school to Academy status. The total net book value for the school still included as at the balance sheet date is £11.04m.

**Academy Schools**

In 2017/18 twelve further schools became Academies, of which five were in the ownership of the Council. Where the School land and premises are in the freehold ownership of the Council, these are now leased by the Council to the Academy school on a 125 year peppercorn rent. On this basis the school is now listed in the Council's fixed asset register at nil value. The value written out of the Council balance sheet in 2017/18 for schools transferring was £17.16m.

At balance sheet date, Department of Education approval had been granted to eleven schools to convert to Academy status. Two schools have converted to Academy School status in early 2018/19 financial year. One of these schools was in Council freehold ownership and the value of the school and associated facilities in the 2017/18 accounts is £1.30m. This is considered as a non-adjusting event after the reporting date.

**Depreciation**

The following useful lives have been used in the calculation of depreciation:

- Council Dwelling – componentised depreciation basis, using the Planned Programme Approach. The components are depreciated on a straightline basis over their useful life (10-80 years) for Decent Homes Standard; with the residual amount (excluding land) depreciated over 150 years.
- Other Land and Buildings – average 10 to 60 years range.
- Vehicles, Plant, Furniture & Equipment – average 5 years.
- Infrastructure – average 40 years.

**Capital Commitments**

At 31 March 2018, the Council has entered into a number of contracts for the purchase, construction or enhancement of Property, Plant and Equipment or to provide grant funding to other bodies for a capital purpose in 2018/19 and future years budgeted to cost £43.313m. Similar commitments at 31 March 2017 were £22.211m. The major commitments were:

- Rural Broadband - £12.503m.
- Highways & Transport schemes - £15.159m.
- HRA Major Repairs Programme - £5.479m.
- Tannery Development - £6.631m.

**Revaluations**

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations were carried out internally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Vehicles, plant, furniture and equipment are held on historic cost basis. The significant assumptions applied in estimating the fair values are:

- That the property is free from any undisclosed onerous burdens, outgoings or restrictions and that good title can be shown.
- That the land and property is not contaminated (including Radon Gas).
- The property and its values are unaffected by any matters which could be revealed by local search or inspection of any register and that the use and occupation of the asset are lawful.
- In valuing the property, plant and machinery have been excluded unless forming part of the structure and normally valued with the building.
- The report does not take account of any liability for taxation which may arise on disposal whether actual or notional, e.g. Capital Gains Tax, or transaction costs, e.g. Stamp Duty.
- Details concerning “title” have been taken from the Council’s Terrier.
- Where there are user rights these have not been considered as having a value because of the inability to transfer such rights.
- In providing Fair Value (Market Value) valuation assumptions have been made as to what is the “highest and best” use of the asset.
- The property has not been discussed with the Planning Authorities and therefore certain assumptions in respect of planning issues have been made in determining values. The assumptions made are based on information on file available to the Valuer when undertaking the Valuation.
- The remaining useful life of each asset has been estimated, these estimates are subject to ongoing planned maintenance programme.

**Valuations of Non-Current Assets carried at Current Value**

The following statement shows the progress of the Council’s rolling programme for the revaluation of Property, Plant and Equipment. The valuations are carried out by the Council’s internal valuation unit. The basis of valuation is set out in the Statement of Accounting Policies. All values are stated on a net present value basis.

| | Council Dwellings £000 | Other Land and Buildings £000 | Vehicles, Plant, Furniture & Equipment £000 | Surplus Assets £000 | Total £000 |
|---|---|---|---|---|---|
| Carried at Historical Cost | | | 12,771 | | 12,771 |
| Valued at Fair Value as at: | | | | | |
| 31-Mar-18 | 193,736 | 1,045 | 0 | 0 | 194,781 |
| 31-Mar-17 | 0 | 108,701 | 0 | 1,293 | 109,994 |
| 01-Apr-16 | 0 | 243,894 | 0 | 0 | 243,894 |
| 01-Apr-15 | 0 | 185,706 | 0 | 0 | 185,706 |
| **Total Cost or Valuation** | **193,736** | **539,346** | **12,771** | **1,293** | **747,146** |

In addition the Council has also instructed its valuers to undertake a review of all assets held in the other land and buildings category to ensure that the carrying value of assets as valued in previous years is not materially different from their fair value. All other asset classes are unaffected.

In order to perform this exercise the other land and building category was split into the sub-categories with the relevant values detailed in the table below:

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Schools, Children’s Services and other Education Facilities | 187,246 | 210,732 |
| Culture & Heritage Buildings | 66,775 | 62,332 |
| Leisure & Recreation | 49,005 | 50,508 |
| Highways & Car Parks | 50,746 | 52,481 |
| Social Services | 35,718 | 31,576 |
| Administrative Offices | 18,954 | 16,558 |
| Waste Management Site | 96,018 | 99,427 |
| Business / Commercial Sites (including Markets) | 15,499 | 16,105 |
| Housing Services (including Gypsy Sites) | 9,672 | 8,101 |
| Smallholdings | 7,493 | 8,960 |
| Other | 2,220 | 1,958 |
| **Total** | **539,346** | **558,738** |

## 15. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Rental income & service charges from investment property | (1,323) | (1,292) |
| Direct operating expenses arising from investment property | 374 | 311 |
| **Net (gain)/loss** | **(949)** | **(981)** |

There are no restrictions on the Council’s ability to realise the value inherent in its investment property or on the Council’s right to the remittance of income and the proceeds of disposal.

The Council has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

| | Long term | | Current | |
|---|---|---|---|---|
| | 2017/18 £000 | 2016/17 £000 | 2017/18 £000 | 2016/17 £000 |
| Balance at start of the year | 50,935 | 50,855 | 0 | 160 |
| Additions: | | | | |
| - Purchases | 27 | 0 | 0 | 0 |
| Disposals: | (3,500) | 0 | 0 | (160) |
| Net gains/losses from fair value adjustments | 8,737 | 760 | 0 | 0 |
| Transfers: | | | | |
| - To/from Property, Plant and Equipment | (1,354) | (680) | 0 | 0 |
| - To/from Current/Long term | 0 | 0 | 0 | 0 |
| **Balance at end of the year** | **54,845** | **50,935** | **0** | **0** |

### Fair Value Hierarchy

Details of the Council's investment properties and information about the fair value hierarchy as at 31 March 2018 are as follows:

| 2017/18<br>Recurring fair value measurements using: | Quoted prices in active markets for identical assets (Level 1)<br>£000 | Other significant observable inputs (Level 2)<br>£000 | Significant unobservable inputs (Level 3)<br>£000 | Fair value as at 31 March 2017<br>£000 |
|---|---|---|---|---|
| Residential (market rental) properties | 4,662 | 7,215 | 0 | 11,877 |
| Office Units | 0 | 35,571 | 0 | 35,571 |
| Commercial units | 0 | 7,397 | 0 | 7,397 |
| **Total** | **4,662** | **50,183** | **0** | **54,845** |

| 2016/17 comparatives<br>Recurring fair value measurements using: | Quoted prices in active markets for identical assets (Level 1)<br>£000 | Other significant observable inputs (Level 2)<br>£000 | Significant unobservable inputs (Level 3)<br>£000 | Fair value as at 31 March 2016<br>£000 |
|---|---|---|---|---|
| Residential (market rental) properties | 0 | 8,272 | 0 | 8,272 |
| Office Units | 0 | 33,690 | 0 | 33,690 |
| Commercial units | 4,220 | 4,753 | 0 | 8,973 |
| **Total** | **4,220** | **46,715** | **0** | **50,935** |

**Valuation Techniques used to Determine Level 2 and 3 Fair Values for Investment Properties**

Significant Observable Inputs – Level 2

The market approach and the income approach have been used to as the valuation techniques to measure the fair value of Investment Properties.

The fair value of properties has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

The Income approach has been used mainly in relation to Investment Properties leased on a commercial basis. The income approach is calculated by means of the discounted cash flow method, where the expected cash flows from the properties are discounted to establish the present value of the net income stream. This approach is based on the authorities lease data and data on the local rental market.

**Highest and Best Use of Investment Properties**

In estimating the fair value of the authority's Investment Properties, the valuations have been on the basis of the highest and best use of the asset. In a small number of instances this differs to their current use, mainly where sites would have a higher value if use for residential development, and it is expected planning permission for these sites would be granted based on existing planning policy. The authority is actively working to bring these sites forward for development, but this process can take a number of years.

**Valuation Process for Investment Properties**

The fair value of the authority's investment properties are subject to revaluations in accordance with the authority's policy on revaluing non-current assets, undertaken by the authority's internal Estates Department for General Fund assets and Valuation Office Agency for HRA assets. As Investment Properties are valued on a market value basis and hence more volatile to changes in valuation, they are also subject to annual desktop review, to ensure the valuation reflects current value at the balance sheet date.

## 16. LONG TERM UNQUOTED EQUITY INVESTMENT

The Council held the following unquoted equity investments:

| Recurring fair value measurements using: | 2017/18<br>£000 | 2016/17<br>£000 |
|---|---|---|
| Balance at start of the year | 0 | 0 |
| **Purchases** | | |
| Shrewsbury Retail Unit Trusts | 52,205 | 0 |
| **Disposals** | 0 | 0 |
| **Balance at 31 March 2018** | **52,205** | **0** |

All of the units in the trusts were previously owned by Standard Life Aberdeen and were sold to the Council on the 24th January 2018. The trust is a registered trust in Jersey and is regulated by the Jersey financial services authority and is also approved by the UK Government as a “Baker trust” for tax purposes.

In order to comply with the rules of the trust 99% of the units are held by the Council directly and 1% of the units are held by SSC NO.1 LTD, a wholly owned subsidiary of the Council.

The trusts are independently controlled by professional trustees who are based in Jersey. They appoint managing agents, collect rents, pay costs and run the trust in the best interests of the unit holders. The trust deed confirms the ability of the Council to remove the trustees and also has the power to remove the majority or all of the investee’s board and therefore has power over the trustee. For this reason the trust will be consolidated into the Council’s financial statements.

In accordance with the trust deeds income and expenditure accrues to the unitholders as it arises and this is recognised in the Council’s financial statements.

The wholly owned subsidiary SSC NO.1 LTD is a company incorporated in England and Wales and was incorporated on the 19th January 2018. It has been consolidated in the group accounts. Its issued share capital at the 31st March 2018 was £1, it holds £0 in cash and owes the Council £0.527m being the value of 1% of the total trust assets.

## 17. CAPITAL EXPENDITURE AND FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Opening Capital Financing Requirement (including PFI & Finance Lease)** | **433,988** | **424,867** |
| **Adjustment for loans for capital purposes not previously included in CFR** | **0** | **0** |
| **Adjusted Opening Capital Financing Requirement (including PFI & Finance Lease)** | **433,988** | **424,867** |
| **Capital investment** | | |
| Property, Plant and Equipment | 41,774 | 48,686 |
| Investment Properties | 27 | 0 |
| Long Term Investment | 52,205 | 0 |
| Intangible Assets | 0 | 103 |
| Revenue Expenditure Funded from Capital under Statute | 12,764 | 11,298 |
| Capital Loans | 527 | 7,820 |
| **Sources of finance** | | |
| Capital receipts | (10,436) | (5,184) |
| Capital grants and other contributions | (39,268) | (33,903) |

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Direct Revenue Financing (Including MRA) | (7,072) | (11,688) |
| Minimum Revenue Provision | (7,993) | (8,009) |
| **Closing Capital Financing Requirement (including PFI & Finance Lease)** | **476,516** | **433,988** |
| Closing Capital Financing Requirement – Supported & Unsupported Borrowing – General Fund | 286,785 | 242,645 |
| Closing Capital Financing Requirement – Supported & Unsupported Borrowing – HRA | 84,595 | 84,595 |
| Closing Capital Financing Requirement – PFI & Finance Lease | 105,136 | 106,748 |
| | **476,516** | **433,988** |
| **Explanation of movements in year** | | |
| Increase/(decrease) in underlying need to borrow (supported by Government financial assistance) | (7,137) | (6,065) |
| Increase/(decrease) in underlying need to borrow (unsupported by Government financial assistance) | 51,278 | 5,835 |
| Assets acquired under finance leases | 0 | 0 |
| Assets acquired under PFI contracts | (1,613) | 9,351 |
| **Increase/(decrease) in Capital Financing Requirement** | **42,528** | **9,121** |

## 18. PRIVATE FINANCE INITIATIVE SCHEMES

The Council has two Private Finance Initiative (PFI) schemes: The Quality in Community Services (QICS) PFI, signed on 21 May 2005, and the Waste Services PFI contract, signed on 29 September 2007.

### a. The Quality in Community Services PFI Project

On 21 May 2005 the Council entered into a 30 year contract with Integrated Care Solutions (ICS) to supply and maintain six buildings:

- Three Resource Centres
- A Nursing Home
- A Joint Service Centre
- An Intermediate Care Hub

The contract was a Private Finance Initiative under the Capital Finance Regulations. The Council was awarded a PFI credit of £20.400m.

### b. The Waste Services PFI Project

On 29 September 2007, the former Shropshire County Council, in its capacity as Contracting Authority for the former Shropshire Waste Partnership, entered into a 27 year waste contract with Veolia ES Shropshire Limited. Services under the contract commenced on 1 October 2007. On 20 October 2008 Shrewsbury & Atcham Borough Council joined the Partnership and the contract with Veolia for the remaining 26 years.
The contract is a Private Finance Initiative (PFI) contract and is part funded by £40.800m of PFI credits which are paid as an annual PFI grant.

There are two separable elements to the contract: a collection and recycling element and a waste treatment services element.

The collection and recycling element comprises the kerbside collections of recycling and waste, the operation of the Integrated Waste Management Facilities (comprising the household recycling centres and transfer stations) and waste treatment and disposal other than the operation of the Energy Recovery Facility. The contract is an output based contract but proposed waste infrastructure that will be used to deliver services under this element of the contract includes upgrades of the existing Craven Arms and Whitchurch recycling facilities, the development of Integrated Waste Management Facilities to service the Oswestry and Bridgnorth areas and the development of an In Vessel Composting Facility.

Two broad groups of assets are being provided under the Waste Services PFI contract:

- Vehicles and waste receptacles used to deliver the day to day waste service.
- Assets to be constructed under the contract to deliver improved recycling and diversion performance.

The value of assets held and liabilities resulting from the QICS and Waste PFI contract at each balance sheet date since the commencement of the contract and an analysis of the movements are shown below:

| | QICS PFI | | Waste PFI | |
|---|---|---|---|---|
| | Year Ended 31/03/18 £000 | Year Ended 31/03/17 £000 | Year Ended 31/03/18 £000 | Year Ended 31/03/17 £000 |
| ***Non-Current Assets – Land & Buildings*** | | | | |
| Balance Brought Forward | 13,159 | 13,428 | 95,890 | 99,266 |
| - Depreciation in Period | (353) | (269) | (3,428) | (3,428) |
| - Additions | 0 | 0 | 62 | 3,095 |
| - Revaluation/Impairment | 4,128 | 0 | (60) | (2,969) |
| - Derecognition | 0 | 0 | 0 | (74) |
| Balance Carried Forward | 16,934 | 13,159 | 92,464 | 95,890 |
| ***Non-Current Assets – Vehicles, Plant & Equipment*** | | | | |
| Balance Brought Forward | 0 | 0 | 9,293 | 1,479 |
| - Depreciation in Period | 0 | 0 | (1,972) | (1,866) |
| - Additions | 0 | 0 | 2,052 | 9,680 |
| - Derecognition | 0 | 0 | (107) | 0 |
| Balance Carried Forward | 0 | 0 | 9,266 | 9,293 |
| ***Prepayments*** | | | | |
| Balance Brought Forward | 0 | 0 | 12,828 | 21,029 |
| - Planned Capital Expenditure | 0 | 0 | (3,443) | (8,201) |
| Balance Carried Forward | 0 | 0 | 9,385 | 12,828 |
| ***Finance Lease Liability*** | | | | |
| Balance Brought Forward | (12,586) | (12,822) | (106,991) | (105,604) |
| - Additions | 0 | 0 | (60) | (3,020) |
| - Early Lifecycle | 0 | 0 | (514) | (1,883) |
| - Repayment of Principal | 257 | 236 | 5,373 | 3,516 |
| Balance Carried Forward | (12,329) | (12,586) | (102,192) | (106,991) |

**Details of Payments due to be made under PFI contracts**

| Year | Service Charges * £000 | Principal £000 | Interest # £000 | Total Unitary Charge Payment £000 |
|---|---|---|---|---|
| Amounts Falling Due Within One Year | 21,166 | 5,572 | 11,190 | 37,928 |
| Amounts Falling Due Within 2 – 5 Years | 85,365 | 17,798 | 45,301 | 148,464 |
| Amounts Falling Due Within 6 – 10 Years | 131,841 | 15,943 | 50,244 | 198,028 |
| Amounts Falling Due Within 11 – 15 Years | 149,446 | 28,503 | 44,174 | 222,123 |
| Amounts Falling Due Within 16 – 20 Years | 167,240 | 41,670 | 33,941 | 242,851 |
| Amounts Falling Due Within 21 – 25 Years | 31,664 | 10,809 | 6,475 | 48,948 |

* comprised of operating costs and lifecycle costs
# comprised of finance lease interest and contingent rental

## 19. LEASES

**Authority as a Lessee**

Finance Leases

The Council has two PFI projects: the Quality in Community Services (QICS) PFI and the Waste Services PFI. The Council pays an annual unitary charge (in monthly instalments) to the contractor for the assets and services provided under each PFI contract. This annual unitary charge is comprised of two basic elements: a service element, which is expensed as incurred, and a construction element, which is accounted for as if it were a finance lease.

The assets acquired under these leases are carried as Buildings and Vehicles, Plant and Equipment in the Balance Sheet at the following amounts:

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---|---|---|
| Buildings | 109,398 | 109,050 |
| Vehicles, Plant and Equipment (PFI) | 9,266 | 9,294 |
| **Total** | **118,664** | **118,344** |

The Council is committed to making minimum payments under these leases comprising settlement of the long term liability for the interest in the property acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---|---|---|
| Finance lease liabilities (NPV of minimum lease payments) | 120,295 | 125,350 |
| Finance costs payable in future years | 191,325 | 202,936 |
| **Minimum lease payments** | **311,620** | **328,286** |

The minimum lease payments will be payable over the following periods:

| | Minimum Lease Payments | | Finance Lease Liabilities | |
|---|---|---|---|---|
| | 31 March 2018 £000 | 31 March 2017 £000 | 31 March 2018 £000 | 31 March 2017 £000 |
| Not later than one year | 16,763 | 18,329 | 5,572 | 6,932 |
| Later than one year and not later than five years | 63,098 | 62,740 | 17,798 | 17,558 |
| Later than five years | 231,759 | 247,217 | 96,925 | 100,860 |
| **Total** | **311,620** | **328,286** | **120,295** | **125,350** |

The finance lease liabilities recognised on the balance sheet as "Deferred Liabilities" totals £114.521m. The analysis of the deferred liability is detailed below. Further details of the QICS and Waste PFI lease values are detailed in Note 18 Private Finance Initiative Schemes.

| | QICS £000 | Waste £000 | Total £000 |
|---|---|---|---|
| Lease liability (due within 1 year) | (282) | (5,290) | (5,572) |
| Lease liability (due after 1 year) | (12,046) | (96,903) | (108,949) |
| **Total** | **(12,328)** | **(102,193)** | **(114,521)** |

Operating Leases

The Council has acquired vehicles and equipment by entering into operating leases, with typical lease lengths of three to seven years. The Council also has a number of land and buildings that are held under operating leases.

The minimum lease payments due for the following financial year under non-cancellable leases committed at 31 March under operating leases years are:

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---|---|---|
| Expiring not later than one year | 17 | 176 |
| Expiring later than one year and not later than five years | 553 | 530 |
| Expiring later than five years | 369 | 373 |
| **Total** | **939** | **1,079** |

The expenditure charged in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---|---|---|
| Lease payments | 1,225 | 1,329 |
| Sub Lease receivable | 0 | 0 |
| **Total** | **1,225** | **1,329** |

**Authority as Lessor**

Operating Leases
The Council leases out property under operating leases for a variety of purposes, including:

- For the provision of community services.
- For economic development purposes to provide suitable affordable accommodation for local businesses.
- For income generation as Investment Properties.

The minimum lease payments due under non-cancellable leases committed at 31 March under operating leases years are:

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---|---|---|
| Expiring not later than one year | 348 | 172 |
| Expiring later than one year and not later than five years | 313 | 307 |
| Expiring later than five years | 1,638 | 1,218 |
| **Total** | **2,299** | **1,697** |

## 20. FINANCIAL INSTRUMENTS

**Categories of Financial Instruments**
The following categories of financial instruments are carried in the Balance Sheet.

| | Long term | | Current | |
|---|---|---|---|---|
| | 31-Mar-18 | 31-Mar-17 | 31-Mar-18 | 31-Mar-17 |
| | £000 | £000 | £000 | £000 |
| **Investments:** | | | | |
| Loans and receivables | 400 | 400 | 94,963 | 152,233 |
| Unquoted Equity Investment | 52,205 | 0 | 0 | 0 |
| **Total investments** | **52,205** | **400** | **94,963** | **152,233** |
| **Debtors:** | | | | |
| Loans and receivables | 20,227 | 20,898 | 0 | 0 |
| Financial assets carried at contract amounts | 0 | 0 | 32,685 | 29,192 |
| **Total Debtors** | **20,227** | **20,898** | **32,685** | **29,192** |
| **Borrowing:** | | | | |
| Financial liabilities at amortised cost | (311,568) | (317,568) | (8,457) | (8,482) |
| **Total Borrowings** | **(311,568)** | **(317,568)** | **(8,457)** | **(8,482)** |
| **Other Long Term Liabilities:** | | | | |
| PFI and finance lease liabilities | (114,521) | (119,577) | 0 | 0 |
| **Total Other Long Term Liabilities** | **(114,521)** | **(119,577)** | **0** | **0** |

| | Long term | | Current | |
|---|---|---|---|---|
| | 31-Mar-18 | 31-Mar-17 | 31-Mar-18 | 31-Mar-17 |
| | £000 | £000 | £000 | £000 |
| **Creditors:** | | | | |
| Financial liabilities carried at contract amount | (672) | (684) | (50,555) | (47,340) |
| Cash overdrawn | 0 | 0 | (14,625) | (13,150) |
| Deferred Income | 0 | 0 | (2,175) | 0 |
| **Total Creditors** | **(672)** | **(684)** | **(67,355)** | **(60,490)** |

The debtors figure included in the balance sheet includes payments in advance from individuals and organisations and transactions relating to Council Tax and Business Rates which are not considered to be financial instruments, therefore these prepayments have been excluded above. Similarly the creditors figure also includes transactions relating to Council Tax and Business Rates and receipts in advance which are not a financial instrument, therefore these have been excluded above. A reconciliation of the Financial Instrument figures to the Balance Sheet is provided below:

| | 31-Mar-18 | 31-Mar-17 |
|---|---|---|
| | £000 | £000 |
| **Debtors:** | | |
| Financial assets carried at contract amounts as per Financial Instruments | 32,685 | 29,192 |
| Debtors that are not financial instruments | 27,601 | 26,134 |
| **Total Debtors as per Balance Sheet** | **60,286** | **55,326** |
| **Creditors:** | | |
| Financial liabilities carried at contract amount as per Financial Instruments | (50,555) | (47,340) |
| Creditors that are not financial instruments | (16,406) | (20,460) |
| **Total Creditors as per Balance Sheet** | **(66,961)** | **(67,800)** |

## Soft Loans

### Small Business Loans

Shropshire Council has entered into two legal contracts with MRRT Ltd to provide funding to MRRT Ltd to be used to provide small business loans. As at the balance sheet date a total of £0.750m has been loaned to MRRT Ltd.

### Valuation Assumptions

The interest rate at which the fair value of this soft loan has been made is based on the PWLB rate at point at which the loan payment is made to MRRT Ltd plus 0.5% for the Council's transactional costs.

### Other Soft Loans

Following a review in this area it has been identified that interest free loans with a nominal value of £2.785m are advanced to clients receiving residential/nursing care, who following assessment, are required to pay the full cost of their care. As all of the clients funds are tied up in the property they own, a legal charge is made against the property and when the property is sold the outstanding debts are cleared and the legal charge removed.

In addition, clients who are required to make adaptations to their homes to maintain their independence are also given interest free loans, the nominal value of these loans is £0.304m. A legal charge is again placed against the property and when the property is sold the amount of the loan is repaid and the legal charge removed.

The deferred charges loans are part of the Charging Residential Accommodation Guide (CRAG) assessment and the adaptation loans are part of Disabled Facilities Grant legislation, which means they are part of national agreements. These loans are not part of the Councils internal policies and therefore are not classified as soft loans.

**Income, Expense, Gains and Losses**

| | 2017/18 | | | 2016/17 | | |
|---|---|---|---|---|---|---|
| | Financial Liabilities measured at amortised cost £000 | Financial Assets: Loans and receivables £000 | Total £000 | Financial Liabilities measured at amortised cost £000 | Financial Assets: Loans and receivables £000 | Total £000 |
| Interest expense | 26,603 | 0 | 26,603 | 27,302 | 0 | 27,302 |
| **Total expense in Surplus or Deficit on the Provision of Services** | **26,603** | **0** | **26,603** | **27,302** | **0** | **27,302** |
| Interest income | 0 | (1,733) | (1,733) | 0 | (1,974) | (1,974) |
| Interest income accrued on impaired financial assets | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total income in Surplus or Deficit on the Provision of Services** | **0** | **(1,733)** | **(1,733)** | **0** | **(1,974)** | **(1,974)** |
| **Net (gain)/loss for the year** | **26,603** | **(1,733)** | **24,870** | **27,302** | **(1,974)** | **25,328** |

**The Fair Values of Financial Assets and Financial Liabilities that are not Measured at Fair Value (but for which Fair Value Disclosures are Required)**

Except for the financial assets carried at fair value (described in the table above), all other financial liabilities and financial assets held by the authority are classified as loans and receivables and long-term debtors and creditors and are carried in the Balance Sheet at amortised cost. The fair values calculated are as follows. The fair values calculated are as follows:

| | 31-Mar-18 | | 31-Mar-17 | |
|---|---|---|---|---|
| | Carrying amount £000 | Fair value £000 | Carrying amount £000 | Fair value £000 |
| Financial liabilities – LOBOS | 49,200 | 74,462 | 49,200 | 75,571 |
| Financial liabilities – PWLB | 268,768 | 349,341 | 274,768 | 361,229 |
| PFI liabilities | 114,521 | 220,468 | 119,577 | 241,785 |

The fair value of the liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders above current market rates.

| Financial Assets | 31 March 2018 Carrying amount £000 | Fair value £000 | 31 March 2017 Carrying amount £000 | Fair value £000 |
|---|---|---|---|---|
| Loans and receivables: | | | | |
| Cash | 35,500 | 35,500 | 40,000 | 40,000 |
| Fixed Term Deposits | 40,000 | 40,056 | 110,260 | 110,530 |
| Money Market Funds | 16,420 | 16,420 | 1,710 | 1,710 |
| Short term investments | 2,921 | 2,921 | 0 | 0 |
| Long term debtors | 20,227 | 20,277 | 20,898 | 20,898 |
| Long term investments | 52,605 | 52,605 | 400 | 400 |

The fair value of the assets is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2018) attributable to the commitment to receive interest below current market rates.

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

**Fair value hierarchy for financial assets and financial liabilities that are not measured at fair value**

| Recurring fair value measurements using: | 31-Mar-18 Quoted prices in active markets for identical assets(Level 1) £000 | Other significant observable inputs (Level 2) £000 | Significant unobservable inputs (Level 3) £000 | Total £000 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Financial liabilities held at amortised cost: | | | | |
| Loans/borrowings | 0 | 423,803 | 0 | 423,803 |
| PFI and finance lease liabilities | 0 | 220,468 | 0 | 220,468 |
| **Total** | **0** | **644,271** | **0** | **644,271** |
| **Financial assets** | | | | |
| Loans and receivables: | | | | |
| Soft loans to third parties | 0 | 0 | 750 | 750 |
| Other loans and receivables | 0 | 91,976 | 0 | 92,503 |
| **Total** | **0** | **91,976** | **750** | **93,253** |

| Recurring fair value measurements using: | Quoted prices in active markets for identical assets (Level 1) £000 | 31-Mar-17 Comparative Year Other significant observable inputs (Level 2) £000 | Significant unobservable inputs (Level 3) £000 | Total £000 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Financial liabilities held at amortised cost: | | | | |
| Long term creditors | 0 | 436,800 | 0 | 436,800 |
| PFI and finance lease liabilities | 0 | 241,785 | 0 | 241,785 |
| **Total** | **0** | **678,585** | **0** | **678,585** |
| **Financial assets** | | | | |
| Loans and receivables: | | | | |
| Soft loans to third parties | 0 | 0 | 750 | 750 |
| Other loans and receivables | 0 | 152,240 | 0 | 152,240 |
| **Total** | **0** | **152,240** | **750** | **152,990** |

The fair value for financial liabilities and financial assets that are not measured at fair value included in levels 2 and 3 in the table above have been arrived at using a discounted cash flow analysis with the most significant inputs being the discount rate.

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions.

| Financial Assets | Financial Liabilities |
|---|---|
| No early repayment or impairment is recognised | No early repayment is recognised |
| Estimated ranges of interest rates at 31 March 2018 of 0.25% to 0.97% for loans receivable, based on new lending rates for equivalent loans at that date | Estimated ranges of interest rates at 31 March 2018 of 1.47% to 2.57% for loans payable, based on new lending rates for equivalent loans at that date |
| The fair value of trade and other receivables is taken to be the invoiced or billed amount | |

## 21. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The identification, understanding and management of risk are, by necessity, a major part of the Council's treasury management activities. The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management require the Council to manage risk in the following ways:

- By formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- By the adoption of a Treasury Policy Statement and treasury management clauses;
- By approving annually in advance prudential and treasury indicators for the following three years;

- By approving an investment strategy for the forthcoming year.

To avoid the Council suffering loss as a result of its treasury management activities a number of risk management procedures have been put in place.

These procedures are based on the concept that firstly security of principal is paramount, secondly that there is a need to maintain liquidity and finally earning a rate of return commensurate with the first two concepts.

**Credit Risk Exposure**

Credit and counterparty risk is the failure by a third party to meet its contractual obligations under an investment, loan or other commitment, especially due to deterioration in its creditworthiness.

As a holder of public funds, Shropshire Council regards it a prime objective of its treasury management activities to be the security of the principal sums it invests. The enhancement of returns is a secondary consideration to the reduction or minimisation of risk. Accordingly, the Council ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited.

The main criteria for determining the suitability of investment counterparties is outlined in the Council's creditworthiness policy which is approved as part of the Annual Investment Strategy. The Council's lending list is reviewed continuously in conjunction with its treasury advisor and formally updated monthly. Additions to, and deletions from, the list are approved by the Section 151 Officer.

The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. For the highest rating the maximum amount is currently limited to £20.000m.

The analysis below summarises the Council's potential maximum exposure to credit risk, based on the experience of default, adjusted to reflect current market conditions.

| | Amount deposited at 31 March 2018 | Historical experience of default | Historical experience adjusted for market conditions at 31 March 2018 | Estimated maximum exposure to default and uncollectability at 31 March 2018 | Estimated maximum exposure at 31 March 2018 |
|---|---|---|---|---|---|
| | £000 | % | % | % | £000 |
| | A | B | C | (AxC) | |
| Loans and receivables held with counterparties having a default rating of: | | | | | |
| AAA | 16,420 | 0.00 | 0.00 | 0 | 0 |
| AA | 20,000 | 0.02 | 0.03 | 6 | 6 |
| A | 40,500 | 0.06 | 0.08 | 32 | 58 |
| BBB | 0 | 0.17 | 0.19 | 0 | 19 |
| Other Local Authorities | 15,000 | 0.00 | 0.00 | 0 | 0 |
| Debtors (Customers) | 22,215 | Local Experience | Local Experience | Local Experience | Local Experience |

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council generally allows its customers 30 days credit. Of the £20.215m outstanding from customers £11.181m is past its due date for payment. This amount past due date is analysed by age as follows:

| Age of Debt | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Less than 3 months overdue | 3,542 | 3,143 |
| 3 to 6 months overdue | 1,465 | 1,544 |
| 6 months to 1 year overdue | 1,412 | 1,458 |
| More than 1 year overdue | 4,762 | 6,101 |
| | **11,181** | **12,246** |

**Liquidity Risk Exposure**

Liquidity risk is the risk that cash is not available when required. This can jeopardise the ability of the Council to carry out its functions or disrupt those functions being carried out in the most cost effective manner. The Council therefore has sufficient standby facilities to ensure that there is always sufficient liquidity to deal with unexpected circumstances.

As the Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the Public Works Loan Board and money markets for access to longer term funds, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourably high interest rates. The Council's strategy therefore is to ensure that no more than 15% of loans mature in any one financial year.

In addition, all of the Council's short term liquidity requirements can be satisfied through short term borrowing and bank overdraft facilities.

The maturity analysis of financial liabilities is as follows:

| Age of Debt | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Less than 1 year | 6,400 | 6,400 |
| Between 1 and 2 years | 4,000 | 6,000 |
| Between 2 and 5 years | 16,000 | 20,000 |
| Between 5 and 10 years | 6,600 | 6,600 |
| More than ten years | 284,968 | 284,968 |
| | **317,968** | **323,968** |

**Interest Rate Risk**

Interest rate risk is the risk that unexpected changes in interest rates expose the Council to greater costs or a shortfall in income than have been budgeted for. The Council minimises this risk by seeking expert advice on forecasts on interest rates from its Treasury Management consultants, and agreeing with them the strategy for the forthcoming year for the investment and debt portfolios. Movement of actual interest rates against these expectations is monitored continuously with advice from our treasury advisor.

The Annual Treasury Management Strategy draws together the Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. Interest rate exposure limits and other prudential limits are set through this Strategy. The limit for variable rate debt is 50% of the total debt portfolio however the Council works to a more prudent level and maximises its exposure to 25%. As borrowings are not carried at fair value, nominal gains and losses on fixed rate borrowings do not impact on the Surplus or Deficit on the Provision of Services or other Comprehensive Income and Expenditure.

As at 31 March 2018 the Council's total outstanding debt (excluding accrued interest) amounted to £317.994m of which none of these loans were at stepped interest rates. Out of this balance £268.768m relates to fixed rate Public Works Loan Board (PWLB) loans, £49.200m relates to Lenders Option Borrower Option (LOBO) market loans, £0.026m relates to temporary loans for voluntary groups. As the LOBO loans have a call option where the lender can increase the rate of the loan at predetermined dates these loans are classified as variable rate loans. If the lender increases the interest rate on the LOBO loans at the predetermined date then the Council has the option to repay the loan in full thereby offering the potential for the Council to avoid this increase in interest payable.

The majority of the Council's investments are fixed rate deposits however, investments in Call Accounts are classified as variable rate investments. As at the end of March 2018, £51.920m was held in a Call Account.

**Price Risk**

The Council, excluding the pension fund, does not invest in equity shares or bonds, therefore is not exposed to losses arising from movements in share/bond prices.

**Foreign Exchange Risk**

The Council has no financial assets or liabilities denominated in foreign currencies therefore the exposure to loss arising from movements in exchange rates is zero.

## 22. DEBTORS

These are sums of money due to the Council but unpaid at 31 March 2018.

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Central Government Bodies | 10,209 | 6,944 |
| Other Local Authorities | 1,937 | 1,941 |
| NHS Bodies | 5,667 | 4,593 |
| Public Corporations and Trading Funds | 1 | 0 |
| Other Entities and Individuals | 33,086 | 29,020 |
| Waste PFI Prepayments | 9,386 | 12,828 |
| | **60,286** | **55,326** |

## 23. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---|---|---|
| Bank current accounts | 36,966 | 26,741 |
| Short term deposits with building societies | 10,076 | 66,492 |
| **Total Cash and Cash Equivalents** | **47,042** | **93,233** |
| Bank Overdraft | (14,625) | (13,150) |
| **Cash Overdrawn** | **(14,625)** | **(13,150)** |

## 24. CREDITORS

These are amounts owed by the Council for work done, goods received or services rendered which had not been paid by 31 March 2018.

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Central Government Bodies | (6,576) | (10,750) |
| Other Local Authorities | (2,001) | (2,147) |
| NHS Bodies | (2,574) | (2,680) |
| Public Corporations and Trading Funds | 0 | 0 |
| Other Entities and Individuals | (55,810) | (52,223) |
| | **(66,961)** | **(67,800)** |

## 25. PROVISIONS

The value of provisions held as at 31 March 2018 are as follows:

| | Balance at 31 March 2016 £000 | Transfers Out 2017/18 £000 | Transfers In 2017/18 £000 | Balance at 31 March 2017 £000 | Transfers Out 2018/19 £000 | Transfers In 2018/19 £000 | Balance at 31 March 2018 £000 |
|---|---|---|---|---|---|---|---|
| **Short Term Provisions** | | | | | | | |
| Accumulated Absences Account | 2,165 | (2,165) | 2,488 | 2,488 | 0 | 120 | 2,608 |
| Redundancy Provision | 143 | (143) | 0 | 0 | 0 | 0 | 0 |
| Land Charges | 145 | (145) | 0 | 0 | 0 | 0 | 0 |
| Raven Meadows NNDR | 255 | (255) | 0 | 0 | 0 | 0 | 0 |
| Environmental Maintenance Provision | 0 | 0 | 0 | 0 | 0 | 578 | 578 |
| Rent Top Up Provision | 0 | 0 | 0 | 0 | (62) | 329 | 267 |
| **Total Short Term Provisions** | **2,708** | **(2,708)** | **2,488** | **2,488** | **(62)** | **1,027** | **3,453** |
| **Long Term Provisions** | | | | | | | |
| AWM | 270 | (46) | 0 | 224 | 0 | 0 | 224 |
| S106 | 73 | 0 | 0 | 73 | 0 | 0 | 73 |
| Rent Top Up Provision | 0 | 0 | 0 | 0 | 0 | 168 | 168 |
| Liability Insurance | 3,928 | (364) | 0 | 3,564 | (142) | 402 | 3,824 |
| NDR Appeals | 4,571 | (1,140) | (106) | 3,325 | (3,667) | 3,878 | 3,536 |
| Tenancy Deposit Clawbacks | 125 | (10) | 27 | 142 | (15) | 18 | 145 |
| **Total Long Term Provisions** | **8,967** | **(1,560)** | **(79)** | **7,328** | **(3,824)** | **4,466** | **7,970** |
| **Total Provisions** | **11,675** | **(4,268)** | **2,409** | **9,816** | **(3,886)** | **5,493** | **11,423** |

## 26. USABLE RESERVES

Movements in the Council’s usable reserves are detailed in the Movement in Reserves Statement.

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---|---|---|
| Usable Capital Receipts Reserve | 0 | 0 |
| Major Repairs Reserve | 4,514 | 2,369 |
| Reserves | 69,839 | 63,860 |
| Capital Grants Unapplied Account | 21,426 | 11,574 |
| HRA Balance | 8,225 | 9,031 |
| General Fund Balance | 15,311 | 14,698 |
| **Total Usable Reserves** | **119,315** | **101,532** |

## 27. UNUSABLE RESERVES

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---|---|---|
| Revaluation Reserve | 155,077 | 158,153 |
| Capital Adjustment Account | 606,309 | 594,146 |
| Financial Instruments Adjustment Account | (4,638) | (4,964) |
| Deferred Capital Receipts Reserve | 687 | 715 |
| Pensions Reserve | (434,324) | (461,828) |
| Collection Fund Adjustment Account | (288) | 4,561 |
| Accumulated Absences Account | (2,609) | (2,488) |
| **Total Unusable Reserves** | **320,214** | **288,295** |

### Revaluation Reserve

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Balance at 1 April** | **158,153** | **136,248** |
| Upward revaluation of assets | 14,148 | 39,035 |
| Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | (1,235) | (3,941) |
| Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | **12,913** | **35,094** |
| Difference between fair value depreciation and historical depreciation | (5,909) | (5,658) |
| Accumulated gains on assets sold or scrapped | (10,080) | (7,531) |
| Other transfers to the Capital Adjustment Account | 0 | 0 |
| Amount written off to the Capital Adjustment Account | **(15,989)** | **(13,189)** |
| **Balance at 31 March** | **155,077** | **158,153** |

### Capital Adjustment Account

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Balance at 1 April** | **594,146** | **584,836** |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| - Charges for depreciation and impairment of non-current assets | (38,522) | (39,916) |
| - Revaluation losses on Property, Plant and Equipment | 6,189 | 29,142 |
| - Amortisation of intangible assets | (91) | (161) |
| - Revenue expenditure funded from capital under statute | (12,764) | (11,298) |
| - Amounts of non current assets written off on disposal or sale as part of the gain/loss of disposal to the Comprehensive Income and Expenditure Statement | (32,144) | (41,192) |
| | **(77,332)** | **(63,425)** |

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Adjusting amounts written out of the Revaluation Reserve | **15,989** | **13,189** |
| Net written out amount of the cost of non current assets consumed in the year | **(61,343)** | **(50,236)** |
| Capital financing applied in the year: | | |
| - Use of the Capital Receipts Reserve to finance new capital expenditure | 10,436 | 5,184 |
| - Use of the Major Repairs Reserve to finance new capital expenditure | 1,849 | 3,982 |
| - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 39,104 | 33,689 |
| - Application of grants to capital financing from the Capital Grants Unapplied Account | 164 | 216 |
| - Statutory provision for the financing of capital investment charged against the General Fund and HRA balances | 7,993 | 8,009 |
| - Capital expenditure charged against the General Fund and HRA balances | 5,223 | 7,706 |
| | **64,769** | **58,786** |
| Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | **8,737** | **760** |
| **Balance at 31 March** | **606,309** | **594,146** |

## Financial Instruments Adjustment Account

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Balance at 1 April** | **(4,964)** | **(5,284)** |
| Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory requirements. | 315 | 315 |
| Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements | 11 | 5 |
| **Balance at 31 March** | **(4,638)** | **(4,964)** |

## Deferred Capital Receipts Reserve

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Balance at 1 April** | **715** | **740** |
| Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | 0 | 0 |
| Transfer to the Capital Receipts Reserve upon receipt of cash | (28) | (25) |
| **Balance at 31 March** | **687** | **715** |

### Pensions Reserve

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Balance at 1 April** | **(461,828)** | **(388,736)** |
| Opening balance amendment | (707) | 0 |
| Remeasurements of the net defined benefit liability/(asset) | 40,500 | (61,785) |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (34,171) | (31,532) |
| Employer's pension contributions and direct payments to pensioners payable in the year | 21,882 | 20,225 |
| **Balance at 31 March** | **(434,324)** | **(461,828)** |

### Collection Fund Adjustment Account

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Balance at 1 April** | **4,561** | **(1,515)** |
| Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax and non-domestic rates income calculated for the year in accordance with statutory requirements | (4,849) | 6,076 |
| **Balance at 31 March** | **(288)** | **4,561** |

### Accumulated Absences Account

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Balance at 1 April** | **(2,488)** | **(2,165)** |
| Settlement or cancellation of accrual made at the end of the preceding year | 2,488 | 2,165 |
| Amounts accrued at the end of the current year | (2,609) | (2,488) |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | **(121)** | **(323)** |
| **Balance at 31 March** | **(2,609)** | **(2,488)** |

## 28. CASH FLOW STATEMENT – RECONCILIATION OF NET SURPLUS / DEFICIT TO THE MOVEMENT ON REVENUE ACTIVITIES

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Surplus/(Deficit) for year per Comprehensive Income & Expenditure Statement** | **(3,003)** | **(2,054)** |
| Adjust net surplus or deficit on the provision of services for non cash movements | | |
| Depreciation | 38,522 | 39,915 |

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Impairment and downward valuations | (6,189) | (29,142) |
| Amortisation | 91 | 161 |
| Impairment losses on Loans & advances debited to surplus or deficit on the provision of services in year | 0 | 5 |
| Increase/Decrease in Interest Creditors | (41) | (83) |
| Increase/Decrease in Creditors | 8,090 | (3,028) |
| Increase/Decrease in Interest and Dividend Debtors | 141 | 63 |
| Increase/Decrease in Debtors | (4,960) | 9,055 |
| Increase/Decrease in Inventories | 326 | 16 |
| Pension Liability | (2,399) | 11,307 |
| Contributions to/(from) Provisions | 1,608 | (1,861) |
| Carrying amount of non-current assets sold | 31,498 | 40,694 |
| Movement in Investment Property Values | (8,737) | (760) |
| | **57,950** | **66,342** |
| Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities | | |
| Carrying amount of short and long term investment sold | 11,465 | (213) |
| Capital Grants credited to surplus or deficit on the provision of services | (49,121) | (38,866) |
| Proceeds from the sale of property plant and equipment, investment property and intangible assets | (11,041) | (5,786) |
| | **(48,697)** | **(44,865)** |
| **Net Cash Flows from Operating Activities** | **6,250** | **19,423** |

## 29. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Interest received | (1,874) | (2,037) |
| Interest paid | 26,643 | 27,380 |

## 30. CASH FLOW STATEMENT – INVESTING ACTIVITIES

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Purchase of property, plant and equipment, investment property and intangible assets | 46,003 | 44,393 |
| Purchase of short term and long term investments | 52,732 | 0 |
| Other payments for investing activities | 605 | 8,330 |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | (28) | (25) |
| Other receipts from investing activities* | (59,571) | (47,921) |
| **Net cash flows from investing activities** | **39,741** | **4,777** |

* This includes capital grants received in year.

## 31. CASH FLOW STATEMENT – FINANCING ACTIVITIES

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts | 3,746 | 3,753 |
| Repayments of short and long term borrowing | 6,012 | 5,046 |
| Other payments for financing activities* | 4,417 | (9,308) |
| **Net cash flows from financing activities** | **14,175** | **(509)** |

* Represents change in value of NNDR debtor/creditor

## 32. TRADING OPERATIONS

The Council has 19 trading units where the service manager is required to operate in a commercial environment and balance their budget by generating income from other parts of the Council or other organisations. Details of these units with a turnover of greater than £5m in 2017/18 are as follows:

| | | 2017/18 | | 2016/17 | |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | £000 |
| Shire Services operates as a trading organisation within the Council, delivering catering and cleaning services. Shire Services provides catering services to schools in Shropshire, Worcestershire, Herefordshire, Telford and North Wales, as well as to a range of non-school sites in Shropshire. Cleaning services are provided to schools and other Council premises in Shropshire, including the Area Headquarters. | Turnover | (15,335) | | (15,828) | |
| | Expenditure | 16,005 | | 16,244 | |
| | **(Surplus)/ Deficit** | | **670** | | **416** |
| Shropshire County Training – This trading organisation ceased on 30/04/2016 | Turnover | 0 | | (318) | |
| | Expenditure | 0 | | 723 | |
| | **(Surplus)/ Deficit** | | **0** | | **405** |
| The consolidated results of the other 17 of the Council's 19 trading units are | Turnover | (34,446) | | (35,369) | |
| | Expenditure | 33,692 | | 34,081 | |
| | **(Surplus)/ Deficit** | | **(754)** | | **(1,288)** |
| **Net Surplus on Trading Activities** | | | **(84)** | | **(467)** |

## 33. MEMBERS' ALLOWANCES

The Council paid the following amounts to members of the council during the year.

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Basic Allowances | 851 | 849 |
| Special Responsibility Allowances | 281 | 290 |
| Expenses | 51 | 52 |
| **Total** | **1,183** | **1,191** |

## 34. OFFICERS' REMUNERATION

The remuneration paid to the Council's senior employees is as follows:

| Post Holder Information (Post Title & Name) | | Salary | Expense Allowances | Total excl. pension contributions | Employers # Pension contributions | Total incl. pension contributions |
|---|---|---|---|---|---|---|
| Chief Executive | 2017/18 | £128,496 | £0 | £128,496 | £19,017 | £147,513 |
| | 2016/17 | £127,476 | £0 | £127,476 | £17,209 | £144,685 |
| Director of Adult Services | 2017/18 | £100,928 | £0 | £100,928 | £14,937 | £115,865 |
| | 2016/17 | £99,929 | £0 | £99,929 | £13,490 | £113,419 |
| Director of Children's Services | 2017/18 | £100,928 | £0 | £100,928 | £14,937 | £115,865 |
| | 2016/17 | £99,929 | £0 | £99,929 | £13,490 | £113,419 |
| Director of Place & Enterprise | 2017/18 | £100,928 | £0 | £100,928 | £14,937 | £115,865 |
| | 2016/17 | £99,929 | £0 | £99,929 | £13,490 | £113,419 |
| Director of Public Health ^ | 2017/18 | £102,440 | £0 | £102,440 | £14,731 | £117,171 |
| | 2016/17 | £101,426 | £0 | £101,426 | £14,504 | £115,930 |
| Head of Legal and Democratic Services, Monitoring Officer | 2017/18 | £99,503 | £0 | £99,503 | £14,726 | £114,229 |
| | 2016/17 | £98,667 | £0 | £98,667 | £13,320 | £111,987 |
| Head of Finance, Governance & Assurance, S151 Officer° | 2017/18 | £99,503 | £0 | £99,503 | £14,726 | £114,229 |
| | 2016/17 | £97,416 | £0 | £97,416 | £13,151 | £110,567 |
| Head of Human Resource & Development | 2017/18 | £88,420 | £0 | £88,420 | £13,086 | £101,506 |
| | 2016/17 | £82,416 | £0 | £82,416 | £11,126 | £93,542 |

# The Council's pension contributions have now been split between a standard percentage contribution and a lump sum for the Council. As a result the standard percentage per person has decreased and the lump sum payment cannot be allocated to specific individuals.

^ An element of the total remuneration paid to the Director of Public Health was recharged to Herefordshire Council (£35,500) to reflect the shared arrangement for the Director of Public Health role up until October 2017.

° An element of the total remuneration paid to the Head of Finance, Governance & Assurance is recharged to Shropshire County Pension Fund (£6,500), Shropshire & Wrekin Fire Authority (£17,560), West Mercia Energy (£4,000), and Marches LEP (£4,696) to reflect the various treasurer roles undertaken within those organisations.

The numbers of officers whose remuneration exceeded £50,000 is analysed into bands of £5,000 as follows. The remuneration disclosed below includes salary costs, expense allowances and claims for reimbursement of expenses:

| Salaried Remuneration Band £ | 2017/18 No. of Employees | 2016/17 No. of Employees |
|---|---|---|
| 50,000 – 54,999 | 61 | 76 |
| 55,000 – 59,999 | 39 | 40 |
| 60,000 – 64,999 | 28 | 27 |
| 65,000 – 69,999 | 12 | 12 |
| 70,000 – 74,999 | 3 | 6 |
| 75,000 – 79,999 | 5 | 4 |
| 80,000 – 84,999 | 5 | 5 |
| 85,000 – 89,999 | 7 | 5 |
| 90,000 – 94,999 | 2 | 1 |
| 95,000 – 99,999 | 3 | 3 |
| 100,000 – 104,999 | 4 | 4 |
| 105,000 and above | 2 | 2 |

The numbers of exit packages with total cost per band and total cost of the exit packages, including redundancy payments, pension strain and unpaid leave are set out in the table below. The figures disclosed include exit packages for schools and the Council.

| | No. of compulsory redundancies | | No. of other departures agreed | | Total no of exit packages by cost band | | Total cost of exit packages in each band £000 | |
|---|---|---|---|---|---|---|---|---|
| | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 |
| £0 - £20,000 | 33 | 68 | 84 | 69 | 117 | 137 | 665 | 980 |
| £20,001 - £40,000 | 5 | 5 | 13 | 21 | 18 | 26 | 475 | 734 |
| £40,001 + | 2 | 6 | 8 | 10 | 10 | 16 | 573 | 1,798 |
| | **40** | **79** | **105** | **100** | **145** | **179** | **1,713** | **3,512** |

## 35. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections provided by the Council's external auditors:

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Fees payable to external audit with regard to external audit services carried out by the appointed auditor | 134 | 134 |
| Fees payable to external audit for the certification of grant claims and returns | 11 | 12 |
| Fees payable in respect of other services provided by the external audit during the year | 8 | 9 |
| **Total** | **153** | **155** |

## 36. DEDICATED SCHOOLS GRANT

The Council's expenditure on schools is funded primarily by grant monies provided by the Department for Education (DfE), the Dedicated Schools Grant (DSG). DSG is ringfenced and can only be applied to meet expenditure properly included in the Schools' Budget. The Schools' Budget includes elements for a range of educational services provided on a Council-wide basis and for the Individual Schools' Budget (ISB), which is divided into a budget share for each school.

Details of the deployment of DSG for 2017/18 are as follows:

| | Central Expenditure £000 | ISB £000 | Total £000 |
|---|---|---|---|
| Final DSG for 2017/18 before Academy recoupment | 38,610 | 156,259 | 194,869 |
| Central provision with Schools and De-delegated Budgets | 3,833 | (3,833) | 0 |
| Early Years Maintained Settings included in ISB on S251 | (2,945) | 2,945 | 0 |
| Re-Allocation of High Needs to ISB | 0 | 0 | 0 |
| High Needs Commissioned Places | (6,520) | 6,520 | 0 |
| High Needs Recoupment | 0 | (4,838) | (4,838) |
| Academy figure recouped for 2017/18 | 0 | (66,798) | (66,798) |
| **Total DSG after Academy recoupment for 2017/18** | **32,978** | **90,255** | **123,233** |
| Plus: Brought forward from 2016/17 | 2,145 | (904) | 1,241 |
| Less: Carry forward to 2018/19 agreed in advance | 0 | 0 | 0 |
| **Agreed initial budgeted distribution in 2017/18** | **35,123** | **89,351** | **124,474** |
| In year adjustments | 0 | (188) | (188) |
| **Final budgeted distribution in 2017/18** | **35,123** | **89,163** | **124,286** |
| Less: Actual central expenditure | (33,902) | 0 | (33,902) |
| Less: Actual ISB deployed to schools | 0 | (87,641) | (87,641) |
| Early Years PVI included in ISB on S251 | 0 | (2,212) | (2,212) |
| Plus: Local authority contribution for 2017/18 | 0 | 0 | 0 |
| **Carry forward to 2018/19** | **1,221** | **(690)** | **531** |

## 37. GRANT INCOME

The Council credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2017/18:

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Credited to Taxation and Non Specific Grant Income** | | |
| Revenue Support Grant | (20,448) | (31,566) |
| Local Services Support Grant | (184) | (184) |
| New Homes Bonus | (7,809) | (9,328) |
| Business Rates Relief Grant | (5,724) | (3,054) |
| Rural Service Support Grant | (5,308) | (6,573) |
| Transitional Grant | (586) | (576) |
| Capital Grants & contributions | (42,770) | (31,597) |
| **Total** | **(82,829)** | **(82,878)** |
| **Credited to Services** | | |
| DWP Housing Benefit | (62,485) | (68,343) |
| DWP Housing Benefit & Council Tax Benefit Admin Subsidy | (1,080) | (1,166) |
| DCLG Waste PFI | (3,186) | (3,186) |
| DCLG Social Services PFI | (1,523) | (1,523) |
| DFE Dedicated Schools Grant | (123,755) | (133,134) |
| DFE/DE Sixth Forms funding | (1,630) | (1,844) |
| DFE Pupil Premium Grant | (5,374) | (6,259) |
| DFE UFSM | (2,540) | (2,828) |
| DFE PE & Sports | (1,359) | (1,040) |
| Education Services Grant | (612) | (2,485) |
| DfT Bus Services Operators Grant | (883) | 0 |
| North West Relief Road | (789) | (154) |
| HO Asylum Seekers | (577) | (183) |
| Landscape Partnership Scheme | (599) | (333) |
| DoH Public Health Grant | (12,317) | (12,628) |
| DCLG/DoH Adult Social Care New Burdens | (1,400) | 0 |
| Independent Living Fund Grant | (1,610) | (1,665) |
| Improved Better Care Fund | (6,194) | 0 |
| Other Grants | (4,757) | (3,561) |
| Capital Grants & contributions | (6,351) | (7,269) |
| Donated Assets | 0 | 0 |
| **Total** | **(239,021)** | **(247,601)** |

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at the year-end are as follows:

| | 31-Mar-18 £000 | 31-Mar-17 £000 |
|---|---|---|
| **Current Liabilities** | | |
| **Grants Receipts in Advance (Capital Grants)** | | |
| Department of Transport | 0 | (668) |
| Department for Education | (207) | (822) |
| Environment Agency | (263) | (774) |
| Other Grants & Contributions | (58) | (103) |
| **Total** | **(528)** | **(2,367)** |
| **Grants Receipts in Advance (Revenue Grants)** | | |
| EFA Designated Schools Grant | (531) | (1,241) |
| DWP Housing Benefit Subsidy | 0 | 0 |
| CLG Tackling Troubled Families | (1,160) | (915) |
| Standards Fund | (330) | (251) |
| SEN Reform | (411) | (402) |
| Homelessness | 0 | (22) |
| Arts Council | (262) | (283) |
| CLG Social Services PFI | (210) | (210) |
| Police & Crime Commissioner – CCTV | 0 | (87) |
| Bus Services Operator Grant | (142) | (512) |
| Other Grants | (1,019) | (712) |
| **Total** | **(4,065)** | **(4,635)** |
| **TOTAL** | **(4,593)** | **(7,002)** |

## 38. PENSION SCHEMES ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEMES

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education. The scheme is technically a defined benefits scheme. However the Scheme is unfunded and the Department of Education uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The scheme has in excess of 3,700 participating employers and consequently the Council is not able to identify its share of the underlying financial position and performance of the Scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2017/18, the Council paid £7.367m to Teachers' Pensions in respect of teachers' retirement benefits. The contribution rate for 2017/18 was 16.48%. The figures for 2016/17 were £8.532m and 16.48%. There were no contributions remaining payable at the year end.

Public Health employees previously employed by the NHS are covered by the provisions of the NHS Pensions Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme.

In 2017/18, the Council paid £0.117m to the NHS Pensions Scheme in respect of public health employee retirement benefits, representing 14.4% of pensionable pay. The figures for 2016/17 were £0.122m and 14.3%.

## 39. DEFINED BENEFIT PENSION SCHEMES

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments and to disclose them at the time that employees earn their future entitlement.

The Local Government Pension Scheme, administered by Shropshire Council is a funded defined benefit scheme. This means that the Council and employees pay contributions into a fund, which is invested in accordance with the Local Government Pension Scheme Regulations.

We recognise the cost of retirement benefits in the reported Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund/HRA Balance via the Movement in Reserves Statement during the year.

**Early Payment of 3 years LGPS deficit lump sum in April 2017**
Every three years the pension scheme undertakes a valuation process which establishes each employer’s deficit in respect of previous years and the period over which this is to be repaid. As the full amount is due now each employer (e.g. Shropshire Council) pays the Pension Fund a rate of “interest” for allowing payment over a longer period to compensate the Fund for investment opportunities which it has foregone. At the time of calculating the deficit lump sum amounts (as part of the 2016 valuation) the Council had a total deficit repayment value of £152m, with an agreed 22 year deficit recovery period. Paying in advance of this schedule enables a gross saving to be taken due to the avoidance of these “interest” payments. This saving has been used to assist with the Council’s corporate savings targets within the budget.

| | Local Government Pension Scheme | |
|---|---|---|
| | 2017/18 | 2016/17 |
| | £000 | £000 |
| **Comprehensive Income and Expenditure Statement** | | |
| Cost of Services: | | |
| - current service cost | (27,332) | (19,537) |
| - past service gain/(cost) | (18) | (11) |
| - curtailment gain/(cost) | 3,769 | 1,135 |
| | **(23,581)** | **(18,413)** |

| | Local Government Pension Scheme 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Financing and Investment Income and Expenditure: | | |
| - net interest expense | (10,590) | (13,119) |
| Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services | **(34,171)** | **(31,532)** |
| Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement: | | |
| - return on plan assets | (6,536) | 148,280 |
| - experience (gain)/loss | 0 | 7,396 |
| - actuarial gains and losses arising on changes in demographic assumptions | 0 | 19,020 |
| - actuarial gains and losses arising on changes in financial assumptions | 47,036 | (236,481) |
| Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement | **6,329** | **(93,317)** |
| Movement in Reserves Statement | | |
| - reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | 34,171 | 31,532 |
| Actual amount charged against the Fund Balances for pensions in the year: | | |
| - employers' contributions payable to scheme | (21,882) | (20,225) |

## Assets and Liabilities Recognised in the Balance Sheet

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Present value of the defined benefit obligation | (1,278,947) | (1,317,633) |
| Fair value of plan assets | 859,311 | 855,805 |
| **Net liability arising from defined benefit obligation** | **(419,636)** | **(461,828)** |

## Reconciliation of the Movements in the Fair Value of the Scheme Assets

| | Local Government Pension Scheme 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Opening fair value of scheme assets at 1 April | 855,805 | 696,802 |
| Opening balance amendment | 1,362 | 0 |
| Interest income | 21,852 | 24,264 |
| Remeasurement gain/(loss): | | |
| Return on plan assets excluding the amount included in the net interest expense | (6,536) | 148,280 |
| Contributions from employer | 21,882 | 20,225 |
| Contributions from employees into the scheme | 5,011 | 5,056 |
| Benefits paid | (36,391) | (38,191) |
| Other | (3,674) | (631) |
| **Closing fair value of scheme assets at 31 March** | **859,311** | **855,805** |

## Reconciliation of Present Value of the Scheme Liabilities

| | Local Government Pension Scheme | |
|---|---|---|
| | 2017/18 £000 | 2016/17 £000 |
| Opening balance at 1 April | (1,317,633) | (1,085,538) |
| Opening balance amendment | (2,069) | 0 |
| Current Service Cost | (26,849) | (19,047) |
| Interest Cost | (32,442) | (37,383) |
| Contributions from scheme participants | (5,011) | (5,056) |
| Remeasurement gain/(loss): | | |
| Experience gains/losses | 0 | 7,396 |
| Actuarial gains/losses arising from changes in demographic assumptions | 0 | 19,020 |
| Actuarial gains/losses arising from changes in financial assumptions | 47,036 | (236,481) |
| Other | 0 | 0 |
| Past service costs | (18) | (11) |
| Losses/(gains) on curtailment | (680) | (1,817) |
| Benefits paid | 36,391 | 38,191 |
| Liabilities extinguished on settlements | 7,640 | 3,093 |
| Lump Sum Deficit Repayment | 14,688 | 0 |
| Other | 0 | 0 |
| **Closing balance at 31 March** | **(1,278,947)** | **(1,317,633)** |

## Local Government Pension Scheme Assets

Assets in the Shropshire County Pension Fund consist of the following categories:

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Cash and cash equivalents** | **17,186** | **19,170** |
| Equity investments: | | |
| UK quoted | 65,051 | 70,860 |
| Global quoted | 389,783 | 397,094 |
| **Sub-total equity** | **454,834** | **467,954** |
| Bonds: | | |
| UK Government fixed | 0 | 0 |
| UK Government indexed | 0 | 0 |
| Government | 0 | 0 |
| Overseas Global Fixed Income | 65,050 | 51,691 |
| PIMCO (Global Investment grade credit) | 0 | 0 |
| PIMCO (Global Absolute return bond fund) | 133,537 | 126,745 |
| **Sub-total bonds** | **198,587** | **178,436** |
| Property: | | |

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Property funds | 42,450 | 38,083 |
| **Sub-total property** | **42,450** | **38,083** |
| | | |
| Alternatives: | | |
| Private Equity | 36,091 | 37,655 |
| Infrastructure | 22,084 | 20,539 |
| Hedge Funds | 58,261 | 58,794 |
| BMO – LDI Manager | 29,818 | 35,174 |
| **Sub-total alternatives** | **146,254** | **152,162** |
| | | |
| **Total assets** | **859,311** | **855,805** |

## Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years is dependent on assumptions about mortality rate, salary levels and other variables.

The Council element of the Fund liabilities has been assessed by Mercer Human Resource Consulting Limited, an independent firm of actuaries. Estimates for the Council element of the Fund are based on the latest full valuation of the scheme as at 31 March 2016.

The significant assumptions used by the actuary have been:

| | Local Government Pension Scheme | |
|---|---|---|
| | 2017/18 | 2016/17 |
| Mortality assumptions: | | |
| Longevity at 65 for current pensioners: | | |
| Men | 23.1yrs | 23.9yrs |
| Women | 26.3yrs | 26.4yrs |
| Longevity at 65 for future pensioners: | | |
| Men | 25.3yrs | 26.2yrs |
| Women | 28.6yrs | 29.2yrs |
| | | |
| Rate of inflation | 2.1% | 2.3% |
| Rate of increase in salaries | 3.6% | 3.8% |
| Rate of increase in pensions | 2.2% | 2.3% |
| Rate for discounting scheme liabilities | 2.6% | 2.5% |

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

| | Impact on the Defined Benefit Obligation in the Scheme Increase in Assumption £000 | Decrease in Assumption £000 |
|---|---|---|
| Longevity (increase or decrease in 1 year) | 1,319,257 | 1,268,013 |
| Rate of inflation (increase or decrease by 0.1%) | 1,314,951 | 1,272,319 |
| Rate of increase in salaries (increase or decrease by 0.1%) | 1,295,888 | 1,291,382 |
| Rate for discounting scheme liabilities (increase or decrease by 0.1%) | 1,272,664 | 1,314,606 |

**Techniques Employed to Manage Risk**

The Shropshire County Pension Fund does not hold an Asset & Liability Matching Strategy however does use other techniques to manage risks within the Fund. The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits to pay members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price, currency and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. Further details of the market, credit and liquidity risk management are detailed in Note 16 of the Shropshire County Pension Fund Annual Report.

**Impact on the Council's Cash Flows**

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 22 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Services Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014. The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

The Council anticipated to pay £21.191m expected contributions to the scheme in 2018/19.

The weighted average duration of the defined benefit obligation for scheme members is 16 years for 2017/18 (16 years 2016/17).

## 40. RELATED PARTIES

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

**Central Government**
Central Government has significant influence over the general operations of the Council, being responsible for the statutory framework within which the Council operates, provides the majority of its funding through the payment of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of transactions with Government departments appear in other parts of the Statement of Accounts.

**Members and Officers**
Members of the Council have direct control over the Council's financial and operating policies. Certain senior officers may also be in a position to influence policies, particularly those who form the Council's management team. All Council members and senior officers have been contacted, advising them of their obligations and asking for any declarations of related party transactions to be disclosed. Members are also asked to confirm that their entries in their Disclosure of Pecuniary Interests are correct.

The Council has made payments to a number of outside organisations on which it is represented by members. The total amount of payments to these bodies in 2017/18 was £26.891m compared with £23.535m for 2016/17.

Councillors are often members of other public or charitable organisations in their own capacity, or are employed by organisations that we process transactions with. These relationships are declared within the Members' register. The Council has made payments of £2.531m to organisations where members and senior officers are employed and £0.389m to organisations where members and senior officers occupy positions in their own capacity.

**Entities Controlled or Significantly Influenced by the Council**
As administrator for the pension fund, the Council has control of the fund within the overall statutory framework. The Council received £1.168m from the pension fund for the costs of administration it provided in 2017/18 compared with £1.173m for 2016/17.

The Council also has group relationships with West Mercia Energy, Shropshire Towns & Rural Housing and IP&E Ltd. Further detail on the type of relationship held with each company is considered in more detail under the Group Accounts section which begins on page 100.

## 41. MARCHES LOCAL ENTERPRISE PARTNERSHIP

Shropshire Council, Telford & Wrekin Council and Herefordshire Council are Partners within the Marches Local Enterprise Partnership. The Partnership was launched in 2010 to create conditions for economic vitality and sustainable employment across the regions represented by the 3 Councils.

The Partnership is not a partnership in law, nor a formal decision making body, and does not have the power to bind the three Councils. The accountable body for the Marches LEP is Shropshire Council and all funding and transactions are processed through Shropshire Council's accounts. Shropshire Council's role within these transactions is deemed to be an agent, acting as an intermediary on behalf of the 3 Councils, therefore Shropshire Council accounts do not include the total income and expenditure for the Marches LEP. Instead, each Council within the Marches LEP will include any funding received from the Marches LEP and expenditure incurred in relation to LEP projects within their accounts. Accordingly any cash balances held by Shropshire Council in relation to the LEP is represented by a creditor within the Council's accounts.

Detailed below are the total funding received and expenditure paid out (cash) by Shropshire Council by 31st March in relation to the Marches LEP including the net creditor within Shropshire Council's balance sheet.

| | 2017/18 | | 2016/17 | |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Opening Creditor 1 April** | | **(9,824)** | | **(16,848)** |
| **Funding Received:** | | | | |
| Growth Deal | (9,647) | | (30,023) | |
| DfT South Wye Package | 0 | | 0 | |
| Growth Hub | (205) | | (205) | |
| Core Funding | (500) | | (450) | |
| Capacity and Other Project Funding | (27) | | (260) | |
| Careers & Enterprise | (64) | | (79) | |
| Match Funding – Partner Contributions | (199) | | (115) | |
| Marches Investment Fund | (287) | | (165) | |
| Interest on Balances | (51) | | (185) | |
| | | (10,980) | | (31,482) |
| **Expenditure:** | | | | |
| Growth Deal Projects | 8,772 | | 36,889 | |
| Growth Hub | 189 | | 208 | |
| Capacity Funding Projects | 143 | | 159 | |
| Careers & Enterprise | 57 | | 2 | |
| Marches Investment Fund Expenditure | 26 | | 675 | |
| LEP Management Costs | 499 | | 573 | |
| | | 9,686 | | 38,506 |
| **Marches LEP Creditor** | | **(11,118)** | | **(9,824)** |

## 42. BETTER CARE FUND

Shropshire Council and Shropshire CCG are partners in the provision of a range of services including support to hospital admission avoidance, hospital discharge planning, carers support and housing. Joint arrangements of this type are permitted under section 75 of the National Health Service Act 2006.

The aims and benefits of the Partners in entering in to this Agreement are to:
- improve the quality and efficiency of the Services;
- meet the National Conditions and Local Objectives as set out in the Better Care Fund plan;

- make more effective use of resources through the establishment and maintenance of an aligned fund for revenue expenditure on the Services;

| Financing | 2017/18 £000 | 2016/17 (Restated) £000 |
|---|---|---|
| **Lead Commissioning Arrangement** | | |
| Funding provided to the Better Care Fund: | | |
| Shropshire Council | 0 | 0 |
| Shropshire CCG | (7,845) | (7,845) |
| | **(7,845)** | **(7,845)** |
| Expenditure met from the Better Care Fund: | | |
| Shropshire Council | 7,926 | 7,764 |
| Shropshire CCG | 0 | 0 |
| | **7,926** | **7,764** |
| **Aligned Budget Arrangement** | | |
| Funding provided to the Better Care Fund: | | |
| Shropshire Council | (9,629) | (3,431) |
| Shropshire CCG | (11,803) | (11,457) |
| | **(21,432)** | **(14,888)** |
| Expenditure met from the Better Care Fund: | | |
| Shropshire Council | 4,395 | 2,459 |
| Shropshire CCG | 11,803 | 11,457 |
| | **16,198** | **13,916** |
| Total Better Care Fund | | |
| Total funding provided to the Better Care Fund | (29,277) | (22,733) |
| Total expenditure met from the Better Care Fund | 24,124 | 21,680 |
| **Net underspend arising on the Better Care Fund during the year** | **(5,153)** | **(1,053)** |

## 43. TRUST ACCOUNTS

Funds held in Trust Accounts are not available for the Council's use. The Council supports the work of a number of trusts including:

| Trust | Purpose | Income £ | Expenditure £ | Assets £ | Liabilities £ |
|---|---|---|---|---|---|
| Shropshire Youth Foundation | Supports the development of under 25 year old residents in Shropshire through their leisure time activities. | (9,588) | 6,936 | 241,998 | 0 |
| Shropshire Schools Jubilee Trust | General fund to support the learning needs of children and young people either living or studying in Shropshire. | (4,635) | 11,380 | 147,311 | 0 |
| Rosalie Inskip Music Trust | Supports excellence in music for young people living in Shropshire. | (8,460) | 4,619 | 322,365 | 0 |

| Trust | Purpose | Income £ | Expenditure £ | Assets £ | Liabilities £ |
|---|---|---|---|---|---|
| Priory Educational Trust | Charitable trust to support ex-pupils of Priory Boys School. | (1,252) | 0 | 56,792 | 0 |
| Lyneal Trust | A charity that offers canal and canal side holidays for people with disabilities, their family and friends. | (113,568) | 67,860 | 642,841 | (37,791) |
| Sight Loss Shropshire | A charity that helps and supports blind and visually impaired people in Shropshire and Telford & Wrekin | (91,439) | 49,687 | 604,808 | (4,381) |

Accounts are prepared and published for these organisations, Shropshire Council is not the only trustee and turnover is not material.

Trusts deliver great benefit into the local community and make a valuable contribution but the Council itself does not derive benefit from them.

## 44. CONTINGENT LIABILITIES

At 31 March 2018 Council had the identified the following contingent liabilities:

There are a number of legal cases outstanding that may result in future costs for the Council. These include:

- Numerous potential Article 5 claims for unlawful deprivations of liberty
- Article 8 claims by children accommodated when applications for a Care Order should have been made.
- Planning Inquiries
- Judicial Reviews for planning permission
- Costs awarded against the Council in the DOLs Judicial Review.
- Potential planning enforcement cases where there is the possibility that we will need to do the works and try to recover the costs.
- Procurement challenge litigation

The Council's usual practice when outsourcing a service that requires continued pension provision for employees is to require the contractor to put a Bond in place to reduce the Council's risk regarding picking up outstanding pension liabilities on termination of the admission agreement. The Council has provided additional guarantees, above those covered automatically by the Local Government Pension Scheme Regulations, to a number of Bodies that have been admitted to the Shropshire County Pension Fund. The bodies with additional guarantees who currently have employees who are active members of the scheme are listed below. The Bodies listed as being grouped with Shropshire Council means all Pension assets and liabilities stay with the Council and they contribute the consolidated Council Employer pension contribution rate unless stated otherwise.

**Bodies that have additional pension liability guarantee**

| Employer | Active Members | Deferred Members | Pensioners Members | Dependant Members | Surplus/(Deficit) as at 31/03/2016 Valuation |
|---|---|---|---|---|---|
| Age UK Telford & Wrekin | 5 | 15 | 20 | 1 | (£0.054m) |
| Association of Local Councils | 2 | 0 | 1 | 0 | (£0.045m) |
| Coverage Care from 1/3/1997 | 13 | 42 | 119 | 9 | (£0.461m) |
| Coverage Care from 13/1/2013 | 27 | 12 | 8 | 1 | £0.139m |
| Livability | 2 | 0 | 0 | 0 | £0.00m |
| Perthyn | 21 | 6 | 0 | 0 | £0.00m |
| Shropshire Towns & Rural Housing | 115 | 37 | 9 | 0 | £0.144m |
| South Shropshire Housing Association | 4 | 6 | 14 | 2 | (£0.130m) |
| The Boathouse | 1 | 2 | 0 | 0 | (£0.004m) |

**Bodies that have additional pension liability guarantee and are Grouped with the Council**

| Employer | Active Members | Deferred Members | Pensioners Members | Dependant Members |
|---|---|---|---|---|
| Bethphage from 8/12/2016 | 21 | 4 | 0 | 0 |
| Bethphage from1/7/2017 | 11 | 0 | 0 | 0 |
| Energize Shropshire Telford & Wrekin | 1 | 1 | 0 | 0 |
| South Shropshire Leisure Ltd * | 19 | 25 | 3 | 0 |
| The Strettons Mayfair Trust | 2 | 0 | 0 | 0 |

* South Shropshire Leisure Ltd Employer contribution rate is capped by the Council to 5%.

The Council has entered into six “Funding and Development Agreements” with a Development Trust for construction of supported living properties. Under these agreements the Development Trust has provided the Council with funding totalling £2.696m for the construction of a supported living property at each site. The contributions will be repayable if the properties cease to be used as supported living properties or the Council fails to conform to the stipulated conditions of the contract within a period of 30 years from when the properties are first occupied.

Nationally a number of legal challenges have been brought by workers who are challenging that their employers have not paid the National Living Wage where ‘sleep in’ services have been provided.  Whilst Shropshire Council recognises a level of risk whether that be direct or indirect the matter is complex and, at this stage, impossible to quantify.

The Council has included a value of £2.4m in short term investments within the Balance Sheet, representing the value of rental guarantees held in an Escrow account for the Shrewsbury Shopping Centres. There is a risk that the value of rental guarantees in the Escrow account could be due to Standard Life Aberdeen however this is dependant on the level of occupancy of units within the Shrewsbury Shopping Centres, and so at this stage is impossible to quantify.

## 45. CONTINGENT ASSETS

The Council currently has a number of appeals lodged with HMRC with regard to VAT treatment, which may result in a reimbursement to the Council of VAT paid over to the Government. The specific cases include a compound interest claim, claims for postal services, leisure and cultural exemptions. There is also an appeal lodged with HMRC with regard to Land Fill Tax.

These claims for reimbursement are subject to legal cases being pursued nationally and if successful will provide legal precedent to be applied. Timescales on these cases are uncertain but should be progressed in the next 12-24 months.

# Section 6

# Group Accounts

# GROUP ACCOUNTS

**Introduction**

This document presents the statutory financial statements for the Shropshire Council Group for the period from 1 April 2017 to 31 March 2018. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (The Code) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The aim of the Group Accounts is to provide the reader with an overall view of the material economic activities of the Council.

In common with many other local authorities, the Council uses different forms of service delivery, where this is appropriate. In some cases it has created separate companies with its partners to deliver those services. The use of separate companies mean that the Council's single entity financial statements on their own do not fully reflect the assets and liabilities or income and expenditure associated with all of its activities. The Group Accounts more fully reflect the overall financial picture. A review of all of the Council's relationships with other bodies has been carried out to consider whether it is appropriate to prepare full group accounts. The transactions involved are not considered material to the Council's accounts however the Council has decided to provide a full disclosure in terms of bodies that it has a relationship with.

The single entity accounting policies detailed on pages 21-41 have been adopted and applied for group account purposes.

The pages which follow contain the Group's Financial Statements for the year ended 31 March 2018, with comparative figures for the previous financial year.

**IP&E LIMITED**

IP&E Ltd is a trading company wholly owned by Shropshire Council. It was established to provide public services on the council's behalf and also to trade with other organisations. The company was incorporated on 30 May 2012. On 17 February 2016, Cabinet agreed to bring the Council's relationship with ip&e Ltd to an end and terminate the strategic contract between the two parties. It was also agreed to terminate the service contracts between the Council and ip&e Ltd with effect from 31 March 2016. In its role as sole shareholder, the Cabinet agreed that ip&e Ltd should cease trading as soon as possible and take necessary actions to remove the company from the companies register. Whilst trading ceased on 31 March 2016, liabilities and commitments remain that need to be resolved before the company can formally apply to be dissolved and removed from the companies register and therefore financial transactions were incurred in the 2017/18 financial year and further financial transactions will be incurred in 2018/19.

IP&E Ltd has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet. Figures have been consolidated based on the statement of accounts for 31st March 2018. For 2017/18 IP&E Ltd had total expenditure of £0.013m, assets of £0.021m and liabilities of £0.005m.

**SHROPSHIRE TOWNS & RURAL HOUSING LIMITED**

Shropshire Towns and Rural Housing Limited (the Company) is a private company limited by guarantee wholly owned by Shropshire Council (the Council). The Company was formed as an Arm's Length Management Organisation under Section 27 of the Housing Act 1985 to undertake the management and maintenance of Shropshire Council's retained housing stock from 1st April 2013.

Shropshire Towns and Rural Housing Limited has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet. For 2017/18 Shropshire Towns and Rural Housing Limited had total income of £15.594m, total expenditure of £15.704m, assets of £5.430m and liabilities of £5.293m.

**WEST MERCIA ENERGY**

West Mercia Energy (WME) is a Purchasing Consortium that was established as a Joint Committee under s101 of the Local Government Act 1972. Shropshire Council is one of four constituent Authorities, the other three Councils are Worcestershire County Council, Herefordshire Council and the Telford & Wrekin Council.

Shropshire Council has reviewed in detail the accounting treatment that should be applied to WME within this Council. The Council considers that WME should be accounted for as a Joint Venture (under IFRS11 – Joint Arrangements and IAS 28 – Investments in Associates and Joint Ventures) with specific regard to the independence that West Mercia Energy has to pursue its own commercial strategy in buying and selling and has access to the market in its own right for its main inputs and outputs.

Shropshire Council's share of West Mercia Energy' balances is 24.7%. The company has been incorporated into the Group Accounts using the Equity method. Figures have been consolidated based on draft statement of accounts for 31st March 2018. For 2017/18 West Mercia Energy had total income of £63.019m, total expenditure of £63.351m, assets of £14.114m and liabilities of £19.011m.

**JERSEY PROPERTY UNIT TRUST**

Shropshire Council holds a 99% investment in a Jersey Property Unit Trust. The Trust is responsible for appointing managing agents for the Shrewsbury Shopping Centres and any other day to day decisions affecting the trust.

The Jersey Property Unit Trust has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet. The accounts have been consolidated as a Business Combination under IFRS 3. For 2017/18 the Jersey Property Unit Trust had total income of £0.997m, total expenditure of £0.653m, assets of £54.969m and liabilities of £1.894m.

**SSC No.1 LIMITED**

SSC No.1 Limited is a limited company wholly owned by Shropshire Council. The Company's principal activity is to hold an investment in a Jersey Property Unit Trust.

SSC No.1 Limited has been included within the accounts as a subsidiary under the requirements of IFRS 10 (Consolidated Financial Statements) and IAS 27 (Separate Financial Statements) by means of a line-by-line consolidation of the Comprehensive Income and Expenditure Statement and the Balance Sheet. The accounts have been consolidated as a Business Combination under IFRS 3 with the accounts for the Jersey Property Unit Trust. For 2017/18 SSC No.1 Limited had total income of £0.011mm, total expenditure of £0.016m, assets of £0.537m and liabilities of £0.542m.

# The Group Comprehensive Income & Expenditure Statement

| 2016/17 Group Expenditure £000 | | 2017/18 SC Net Expenditure £000 | Adjustments £000 | Group Expenditure £000 |
|---|---|---|---|---|
| | **Expenditure on Continuing Services** | | | |
| 84,874 | Adult Services | 88,065 | 0 | 88,065 |
| (8,752) | Local Authority Housing | (8,940) | 31 | (8,909) |
| (28,230) | Exceptional costs relating to revaluation gain on Housing Dwellings | 0 | 0 | 0 |
| 53,065 | Children's Services | 55,010 | 0 | 55,010 |
| 77,794 | Place & Enterprise | 77,772 | 5 | 77,777 |
| 6,038 | Public Health | 4,195 | 0 | 4,195 |
| 3,932 | Resources & Support | 5,847 | 0 | 5,847 |
| 2,467 | Corporate | 157 | 282 | 439 |
| **191,188** | **Net Cost of Services** | **222,106** | **318** | **222,424** |
| 43,159 | Other Operating Expenditure | 29,715 | 0 | 29,715 |
| 36,356 | Financing and Investment Income and Expenditure | 25,689 | 126 | 25,815 |
| (268,574) | Taxation and Non Specific Grant Income | (274,507) | 0 | (274,507) |
| **2,129** | **(Surplus)/Deficit on the provision of services** | **3,003** | **444** | **3,447** |
| (302) | Associates & Joint Ventures Accounted for on an equity basis | 0 | (234) | (234) |
| 7 | Tax expenses of subsidiaries | 0 | 0 | 0 |
| **1,834** | **Group (Surplus)/Deficit** | **3,003** | **210** | **3,213** |
| (35,853) | (Surplus) or deficit on revaluation of non-current assets | (13,291) | 0 | (13,291) |
| 759 | Impairment losses on Non-Current Assets Charged to the Revaluation Reserve | 379 | 0 | 379 |
| 63,559 | Remeasurement of pension assets and liabilities | (40,500) | (789) | (41,289) |
| **28,465** | **Other Comprehensive Income and Expenditure** | **(53,412)** | **(789)** | **(54,201)** |
| **30,299** | **Total Comprehensive Income and Expenditure** | **(50,409)** | **(579)** | **(50,988)** |

## Group Movement in Reserves Statement

| | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Total General Fund Balance £000 | Housing Revenue Account £000 | Major Repairs Reserve £000 | Capital Grants Unapplied Account £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 | Authority's Share of Reserves of Subsidiaries, Associates and Joint Ventures £000 | Total Authority Reserves £000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2017** | **14,698** | **63,860** | **78,558** | **9,031** | **2,369** | **11,574** | **101,532** | **288,295** | **389,827** | **(1,694)** | **388,133** |
| **Movement in reserves during 2017/18** | | | | | | | | | | | |
| Surplus or (deficit) on the provision of services | 3,715 | 0 | 3,715 | 6,812 | 0 | 0 | 10,527 | 0 | 10,527 | (13,740) | (3,213) |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 53,412 | 53,412 | 789 | 54,201 |
| **Total Comprehensive Income and Expenditure** | **3,715** | **0** | **3,715** | **6,812** | **0** | **0** | **10,527** | **53,412** | **63,939** | **(12,951)** | **50,988** |
| Adjustments between Group Accounts and authority accounts | (13,530) | 0 | (13,530) | 0 | 0 | 0 | (13,530) | 0 | (13,530) | 13,530 | 0 |
| **Net Increase/Decrease before Transfers** | **(9,815)** | **0** | **(9,815)** | **6,812** | **0** | **0** | **(3,003)** | **53,412** | **50,409** | **579** | **50,988** |
| Adjustments between accounting basis and funding basis under regulations | 16,407 | 0 | 16,407 | (7,618) | 2,145 | 9,852 | 20,786 | (20,786) | 0 | 50 | 50 |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | **6,592** | **0** | **6,592** | **(806)** | **2,145** | **9,852** | **17,783** | **32,626** | **50,409** | **629** | **51,038** |
| Transfers to/from Earmarked Reserves | (5,979) | 5,979 | 0 | 0 | 0 | 0 | 0 | (707) | (707) | 0 | (707) |
| **Increase/Decrease in 2017/18** | **613** | **5,979** | **6,592** | **(806)** | **2,145** | **(,852)** | **17,783** | **31,919** | **49,702** | **629** | **50,331** |
| **Balance at 31 March 2018** | **15,311** | **69,839** | **85,150** | **8,225** | **4,514** | **21,426** | **119,315** | **320,214** | **439,529** | **(1,064)** | **438,464** |

| 2016/17 Comparative figures | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Total General Fund Balance £000 | Housing Revenue Account £000 | Major Repairs Reserve £000 | Capital Grants Unapplied Account £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 | Authority's Share of Reserves of Subsidiaries, Associates and Joint Ventures £000 | Total Authority Reserves £000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2016** | **18,370** | **60,841** | **79,211** | **5,823** | **2,802** | **6,612** | **94,448** | **324,124** | **418,572** | **(145)** | **418,427** |
| **Movement in reserves during 2016/17** | | | | | | | | | | | |
| Surplus or (deficit) on the provision of services | (23,851) | 0 | (23,851) | 34,246 | 0 | 0 | 10,395 | 0 | 10,395 | (12,229) | (1,834) |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (26,691) | (26,691) | (1,774) | (28,465) |
| **Total Comprehensive Income and Expenditure** | **(23,851)** | **0** | **(23,851)** | **34,246** | **0** | **0** | **10,395** | **(26,691)** | **(16,296)** | **(14,003)** | **(30,299)** |
| Adjustments between Group Accounts and authority accounts | (12,449) | 0 | (12,449) | 0 | 0 | 0 | (12,449) | 0 | (12,449) | 12,449 | 0 |
| **Net Increase/Decrease before Transfers** | **(36,300)** | **0** | **(36,300)** | **34,246** | **0** | **0** | **(2,054)** | **(26,691)** | **(28,745)** | **(1,554)** | **(30,299)** |
| Adjustments between accounting basis and funding basis under regulations | 35,647 | 0 | 35,647 | (31,038) | (433) | 4,962 | 9,138 | (9,138) | 0 | 4 | 4 |
| **Net Increase/Decrease before Transfers to Earmarked Reserves** | **(653)** | **0** | **(653)** | **3,208** | **(433)** | **4,962** | **7,084** | **(35,829)** | **(28,745)** | **(1,550)** | **(30,295)** |
| Transfers to/from Earmarked Reserves | (3,019) | 3,019 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Increase/Decrease in 2016/17** | **(3,672)** | **3,019** | **(653)** | **3,208** | **(433)** | **4,962** | **7,084** | **(35,829)** | **(28,745)** | **(1,550)** | **(30,295)** |
| **Balance at 31 March 2017** | **14,698** | **63,860** | **78,558** | **9,031** | **2,369** | **11,574** | **101,532** | **288,295** | **389,827** | **(1,694)** | **388,133** |

## Adjustments between Group Accounts and Authority Accounts in the Group Movement in Reserves Statement

| | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Housing Revenue Account £000 | Major Repairs Reserve £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 | Authority's Share of Reserves of Subsidiaries, Associates and Joint Ventures £000 | Total Authority Reserves £000 |
|---|---|---|---|---|---|---|---|---|---|
| Purchase of goods and services from subsidiaries | 13,530 | 0 | 0 | 0 | 13,530 | 0 | 13,530 | (13,530) | 0 |
| **Total adjustments between Group Accounts and authority accounts** | **13,530** | **0** | **0** | **0** | **13,530** | **0** | **13,530** | **(13,530)** | **0** |

## Group Balance Sheet at 31 March 2018

| 31 March 2017 £000 | | 31 March 2018 SC £000 | Adjustments £000 | Group £000 |
|---|---|---|---|---|
| 1,106,346 | Property, Plant & Equipment | 1,104,615 | 49,500 | 1,154,115 |
| 0 | Goodwill | 0 | 2,775 | 2,775 |
| 2,553 | Heritage Assets | 2,475 | 0 | 2,475 |
| 50,935 | Investment Property | 54,845 | 0 | 54,845 |
| 121 | Intangible Assets | 34 | 0 | 34 |
| 599 | Assets Held for Sale | 599 | 0 | 599 |
| **1,160,554** | **Total Non-Current Assets** | **1,162,568** | **52,275** | **1,214,843** |
| 400 | Long Term Investment | 52,605 | (52,205) | 400 |
| (1,291) | Investments in Associates and Joint Ventures | 0 | (1,211) | (1,211) |
| 20,898 | Long Term Debtors | 20,227 | 0 | 20,227 |
| **1,180,561** | **Total Long Term Assets** | **1,235,400** | **(1,141)** | **1,234,260** |
| | Current Assets | | | |
| 0 | Current Held for Sale Investment Properties | 0 | 0 | 0 |
| 5,514 | Assets Held for Sale | 3,027 | 0 | 3,027 |
| 59,000 | Short Term Investments | 47,921 | (527) | 47,394 |
| 836 | Inventories | 483 | 23 | 506 |
| 55,943 | Short Term Debtors | 60,286 | 1,521 | 61,807 |
| 97,150 | Cash & Cash Equivalents | 47,042 | 5,834 | 52,876 |
| **218,443** | **Total Current Assets** | **158,759** | **6,851** | **165,610** |
| **1,399,004** | **Total Assets** | **1,394,159** | **5,710** | **1,399,869** |
| | Current Liabilities | | | |
| (13,150) | Bank Overdraft | (14,625) | 0 | (14,625) |
| 0 | Deferred Income | (2,175) | 0 | (2,175) |
| (8,482) | Short Term Borrowing | (8,457) | 0 | (8,457) |
| (69,308) | Short Term Creditors | (66,961) | (3,424) | (70,385) |
| (2,488) | Provisions | (3,453) | 0 | (3,453) |
| (4,635) | Grants Receipts in Advance – Revenue | (4,065) | 0 | (4,065) |
| (2,367) | Grants Receipts in Advance – Capital | (528) | 0 | (528) |
| **(100,430)** | **Total Current Liabilities** | **(100,264)** | **(3,424)** | **(103,688)** |
| **1,298,574** | **Total Assets Less Current Liabilities** | **1,293,895** | **2,286** | **1,296,181** |
| | Long Term Liabilities | | | |
| (684) | Long Term Creditors | (672) | 0 | (672) |
| (317,568) | Long Term Borrowing | (311,568) | 0 | (311,568) |
| (119,577) | Other Long Term Liabilities | (114,521) | 0 | (114,521) |
| (465,285) | Pensions Liability | (419,636) | (3,350) | (422,986) |
| (7,327) | Provisions | (7,969) | 0 | (7,969) |
| **(910,441)** | **Total Long Term Liabilities** | **(854,366)** | **(3,350)** | **(857,716)** |
| **388,133** | **Total Assets Less Liabilities** | **439,529** | **(1,064)** | **438,465** |
| | Financed by: | | | |
| 105,030 | Usable Reserves | 119,315 | 3,860 | 123,175 |
| 283,103 | Unusable Reserves | 320,214 | (4,926) | 315,288 |
| **388,133** | **Total Reserves** | **439,529** | **(1,064)** | **438,465** |

## Group Cash Flow Statement

| 2016/17 Group £000 | Revenue Activities | 2017/18 SC £000 | Adjustments £000 | Group £000 |
|---|---|---|---|---|
| 1,834 | Net (surplus) or deficit on the provision of services | 3,003 | 210 | 3,213 |
| (65,739) | Adjustments to net surplus or deficit on the provision of services for non cash movements | (57,950) | (1,774) | (59,724) |
| 45,435 | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 48,697 | 729 | 49,426 |
| **(18,470)** | **Net cash flows from operating activities** | **(6,250)** | **(835)** | **(7,085)** |
| 4,776 | Investing activities | 39,741 | (800) | 38,941 |
| (1,048) | Financing activities | 14,175 | (282) | 13,893 |
| **(14,742)** | **Net (increase) or decrease in cash and cash equivalents** | **47,666** | **(1,917)** | **45,749** |
| 69,258 | Cash and cash equivalents at the beginning of the reporting period | 80,083 | 3,917 | 84,000 |
| **84,000** | **Cash and cash equivalents at the end of the reporting period** | **32,417** | **5,834** | **38,251** |

## Notes to Group Accounts

### G1. Consolidation of West Mercia Energy

Figures in respect of West Mercia Energy have been consolidated using the equity method. The amounts included in the Group Comprehensive Income and Expenditure Statement are:

| | WME<br>£000 | SC Share (24.7%)<br>£000 |
|---|---|---|
| Turnover | (63,019) | (15,590) |
| Cost of Goods Sold and Operating Expenses | 62,071 | 15,356 |
| Interest and Investment Income | 141 | 35 |
| **Net Operating Surplus** | **(807)** | **(200)** |
| Distribution of Surplus to Member Authorities | 1,139 | 282 |
| **Net deficit for the year** | **332** | **82** |

### G2. Consolidation of Shropshire Towns & Rural Housing Limited

The operating income (£15.594m) and expenditure (£15.625m) of Shropshire Towns & Rural Housing Limited, giving a net expenditure of £0.031m has been included within Local Authority Housing (HRA) in the Net Cost of Services. The inter-company transactions with Shropshire Council have been excluded from Local Authority Housing (HRA) (Income/Expenditure £13.869m).

### G3. Consolidation of IP&E Ltd

The operating expenditure (£0.013m) of IP&E Ltd, giving a net expenditure of £0.013m has been included within Surpluses/deficits on Trading Activities. The inter-company transactions with Shropshire Council have been excluded from Surpluses/deficits on Trading Activities (Income/Expenditure £0.001m).

### G4. Consolidation of Jersey Property Unit Trust

The operating income (£0.997m) and expenditure (£0.653m) of the Jersey Property Unit Trust, giving a net expenditure of £0.344m has been included within Place and Enterprise in the Net Cost of Services.

### G5. Consolidation of SSC No.1 Ltd

The operating income (£0.001m) and expenditure (£0.010m) of SSC No1. Ltd, giving a net expenditure of £0.009m has been included within Place and Enterprise in the Net Cost of Services. 100% of the income and expenditure of the Jersey Property Unit Trust has been consolidated into the Income and Expenditure account as detailed above therefore this has been excluded when consolidating SSC No1. Ltd.

## G4. Investment included in Group Balance Sheet

| | WME<br>£000 | SC Share (24.7%)<br>£000 |
|---|---|---|
| **Assets** | | |
| Plant & Equipment | 2 | 0 |
| Short term debtors | 11,457 | 2,834 |
| Cash and cash equivalents | 2,655 | 657 |
| **Total Assets** | **14,114** | **3,492** |
| **Liabilities** | | |
| Short term creditors | (2,964) | (3,207) |
| Other long term liabilities | (6,047) | (1,496) |
| **Total Liabilities** | **(19,011)** | **(4,703)** |
| | | |
| **Net Investments in Associates and Joint Ventures** | **(4,897)** | **(1,211)** |

## Section 7

# Pension Fund Accounts

## Introduction

During the year the Shropshire Fund increased in value by £66 million to be valued at £1.834 billion at the end of the year. The Fund increased in value by 3.1% over the year and slightly underperformed its benchmark by 0.5%. Over the last two years the Fund returned 10.9% per annum which was 2.1% above benchmark and over the last three years the Fund returned 6.9% per annum which was 0.8% above benchmark. The reason the Fund performance was slightly below benchmark for the year was largely due to the negative returns generated from equity markets during the last quarter of the financial year. Performance of the Fund's active equity managers were all below benchmark during the year.

The Shropshire Fund had positive investment returns in a number of other asset classes which offset the underperformance of equities during the year. The strongest returns were generated in property where the Fund's investments increased in value by 11.3% in the year outperforming the benchmark by 3.9%. The Funds private equity manager produced returns of 7.6% and the Hedge Fund portfolio increased by 6.5% which was 6.3% above benchmark. The combined fixed income portfolios delivered a return of 0.5% which was 0.1% above benchmark. Only two managers produced negative returns during the year which was the UK equity manager and one of the fixed income managers. The Fund's other managers produced positive returns which is the reason for the increase in value of £66 million during the year.

The Pensions Committee determine the strategic asset allocation for the Fund. This outlines the proportion of assets that the Fund invests in equities, bonds and alternative assets such as property. This is the most important decision that the Committee makes because it has the biggest impact on the long term returns of the Fund.

The Pensions Committee undertakes thorough monitoring of the Fund's investment managers and is prepared to make changes in response to investment underperformance or new investment opportunities.

The Fund undergoes an independent actuarial valuation every 3 years. The latest actuarial valuation was conducted at the end of March 2016, identifying that the Fund had a funding level (the relationship between estimated future pension payments and the funds held to pay for these pensions) of 84% which was an increase from 76% at the previous valuation in March 2013. As a local government pension scheme the Fund is able to take a long term view to the recovery of any funding deficit and is able to phase in any changes in the employer contribution rate in a manageable way.

Following the results of the actuarial valuation, the Committee together with Officers and Aon Hewitt started the process of reviewing the Fund's investment strategy. In June 2017, Aon Hewitt undertook a review of the movements in the funding level since the last valuation and presented the results to the Pension Committee. The Government's investment pooling agenda has meant that the Shropshire Fund has been working extremely hard during the year with eight other Funds in the Midlands region in order to meet the tight deadlines set by Government to pool assets by 1 April 2018.

Due to a strong rally in equity markets, particularly in 2016/2017, and a significant increase in the asset value of the Fund, this resulted in the funding level increasing to around 100% at the time the review was carried out which is positive news. In view of this, as a large proportion of the Fund is invested in equities and this represents the biggest risk within the Fund a decision was made to protect £280 million of the Fund from falls in equity markets by implementing an equity protection strategy in September 2017.

Further investment strategy discussions were held with Pension Committee in November 2017 and March 2018 and a decision has been made to reduce the overall allocation to equities by 5% in 2018/19 and replace them with investments in Property Debt and Insurance Linked securities.

The Shropshire Fund continued to work with eight other Funds in the Midlands region in order to meet the tight deadlines set by Government to pool assets by April 2018. LGPS Central Ltd has been established to manage investment assets on behalf of its nine Local Government Pension Scheme (LGPS) funds across the Midlands region. It will be a multi-asset manager, investing approximately £40 billion of assets from 2018 onwards, on behalf of 900,000 LGPS members and 2,500 employers.

LGPS Central Ltd is jointly owned on an equal share basis by eight Pension Funds and is a Collective Portfolio Management Investment Firm (CPMI) regulated by the Financial Conduct Authority (FCA). The participating pension funds are Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire. West Midlands Integrated Transport Authority (ITA) Pension Fund will also be an investor, but not a shareholder, with its shareholder rights represented by West Midlands.

The key objectives of LGPS Central will be to deliver cost savings and improve risk adjusted investment returns after cost, enable access to a wider range of asset classes for the participating pension funds, and to ensure good governance. LGPS Central will manage a wide range of asset classes, employing a mix of internal and external investment management. The company is a private company limited by shares and was incorporated on 13 October 2016. The majority of assets under management will be structured in an Authorised Contractual Scheme (ACS), itself regulated by the FCA, in addition to other pooled investments held in alternative structures. The company has been formed to act as an Alternative Investment Fund Manager (AIFM) to allow the participating LGPS administering authorities to pool their respective investments.

The governance structure for LGPS Central has been agreed by all partner funds and appointments for key individuals has progressed well during the year. The LGPS Central Board and Executive Committee are now in place. There are currently 32 permanent staff with further recruitment to come over the course on 2018. Regular investment pooling meetings continue to be held with representatives from each of the eight LGPS Funds. The Practitioners Advisory Forum, which is made up of s151 Officers and Pension Managers from each Fund, are updated regularly on the progress made and key developments of LGPS Central. Meetings of the Shareholders Forum, which is made up of one elected member from each Fund, have been held during the year to approve key decisions. The Joint Committee, which is also made up of one elected member from each Fund, has also met during the year to discuss any client related investors issues. An FCA application for LGPS Central Ltd was submitted in July 2017 and approval was granted in November 2017 in order to meet the April 2018 deadline.

# PENSION FUND ACCOUNTS

LGPS Central Ltd opened for business on the 3 April 2018 with the launch of 3 new pooled funds. In addition to these funds, LGPS Central will be responsible for 8 advisory and discretionary mandates on behalf of its Partner Funds. Together these new funds and mandates see LGPS Central Ltd responsible for £12 billion of assets following its launch. Working with our partners to develop and implement our investment strategy will continue to be a major strategic focus for the Fund over the next year.

The Pensions Administration Team have always tried to ensure data is collected in a timely manner from Fund employers and that the data they provide is accurate. However, this has become an even higher priority following the announcement that the Pensions Regulator expected all Schemes to undertake an annual data review and from 2018 must provide data scores on its Annual Return. To ensure the Fund is compliant, during 2017/18, the team undertook a Data Review Exercise to measure the accuracy of the data it holds. The team have also been working closely with Scheme Employers for the past couple of years to ensure member data is supplied on time and all employers are now using the electronic data transfer system called iConnect. By employers submitting monthly data via iConnect queries identified by the team are dealt with straight away and members are able to view their most up to date pension benefits using the 'My Pension Online' area of the website. The team are also on track to meet the December 2018 deadline to ensure that Members records are reconciled with HMRC following the end of contracting out in April 2016.

## PENSION FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2018

| 2016/17<br>£000 | | 2017/18<br>£000 |
|---|---|---|
| | **Income** | |
| | Contributions | |
| (47,049) | Employers (Note 7) | (64,083) |
| (13,927) | Employees (Note 7) | (14,049) |
| (2,854) | Transfers In from other pension funds (Notes 3, 7) | (6,005) |
| **(63,830)** | **Total Income** | **(84,137)** |
| | **Expenditure** | |
| | Benefits Payable | |
| 54,535 | Pensions (Note 7) | 56,515 |
| 9,021 | Commutation of pensions and lump sum retirement benefits (Note 7) | 8,337 |
| 1,256 | Lump Sum Death Benefits (Note 7) | 1,272 |
| | Payment to & Account of Leavers | |
| 298 | Refund of contributions (Note 7) | 218 |
| 6,736 | Transfers to other funds (Notes 3, 7) | 5,249 |
| **71,845** | **Total Expenditure** | **71,591** |
| **8,015** | **Net (additions) / withdrawals from dealings with scheme members** | **(12,546)** |
| **13,717** | **Management Expenses (Note 8)** | **14,607** |
| | **Returns on Investments** | |
| (23,155) | Investment Income (Notes 3, 9) | (24,935) |
| (10,955) | (Gain)/loss on cash and currency hedging | (10,669) |
| 97 | Taxes on Income (Note 10) | 344 |
| (261,999) | Profits and losses on disposal of investments and changes in value of investments (Note 11a) | (32,347) |
| **(296,012)** | **Net (increase) / decrease in the net assets available for benefits during the year** | **(67,607)** |
| **(274,280)** | **(Surplus) / deficit on the pension fund for the year** | **(65,546)** |
| **1,493,990** | **Opening net assets of the scheme** | **1,768,270** |
| **1,768,270** | **Closing net assets of the scheme** | **1,833,816** |

## PENSION FUND NET ASSET STATEMENT AS AT 31 MARCH 2018

| 31-Mar-17 | | 31-Mar-18 | |
|---|---|---|---|
| £0 | | £0 | % |
| | **Investment Assets** | | |
| 263,900 | Equities (Note 11b) | 264,509 | 14.42 |
| | Pooled Investment Vehicles | | |
| 1,446,606 | Other Managed Funds (Note 11b) | 1,532,234 | 83.55 |
| | Other Investment Balances | | |
| | Loans (Note 11b) | 685 | 0.04 |
| | Cash Deposits | | |
| 54,084 | Deposits (Note 11a) | 33,081 | 1.80 |
| 2,520 | Temporary Investments (Note 27) | 2,000 | 0.11 |
| **1,767,110** | **Total Investment Assets** | **1,832,509** | 99.93 |
| | **Current Assets** | | |
| 2,233 | Contributions due from Employers (Note 18) | 2,292 | 0.12 |
| 1,697 | Other Current Assets (Note 18) | 2,204 | 0.12 |
| | **Current Liabilities** | | |
| (218) | Unpaid Benefits (Note 19) | (163) | (0.01) |
| (2,453) | Other Current Liabilities (Note 19) | (2,807) | (0.15) |
| (99) | Cash Balances (Note 27) | (219) | (0.01) |
| **1,768,270** | **Net Assets of the Scheme – Available to Fund Benefits as at 31 March** | **1,833,816** | **100.00** |

The Fund’s financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in the Actuary Statement.

## NOTES TO THE SHROPSHIRE COUNTY PENSION FUND ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2018

## 1. DESCRIPTION OF FUND

The Shropshire County Pension Fund is part of the Local Government Pension Scheme and is administered by Shropshire Council. The Council is the reporting entity for this Pension Fund.

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by Shropshire Council to provide pensions and other benefits for pensionable employees of Shropshire Council and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes. The Fund is overseen by the Shropshire County Pension Fund Committee, which is a committee of Shropshire Council.

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Shropshire County Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 181 employers within the Shropshire County Pension Fund including Shropshire Council itself, as detailed below.

| Shropshire County Pension Fund | 31 March 2018 | 31 March 2017 |
|---|---|---|
| Number of employers with active members | 138 | 127 |
| **Number of employees in the scheme** | | |
| Shropshire Council | 6,690 | 7,227 |
| Other employers | 9,787 | 9,290 |
| **Total** | **16,477** | **16,517** |
| **Number of pensioners in the scheme** | | |
| Shropshire Council | 5,048 | 4,920 |
| Other employers | 5,273 | 5,105 |

| Shropshire County Pension Fund | 31 March 2018 | 31 March 2017 |
|---|---|---|
| Total | 10,321 | 10,025 |
| | | |
| **Number of deferred pensioners in the scheme** | | |
| Shropshire Council | 8,561 | 8,366 |
| Other employers | 8,882 | 8,450 |
| | | |
| **Total** | **17,443** | **16,816** |

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was as at 31 March 2016. Currently, employer contribution rates range from 6.9% to 28.0% of pensionable pay.

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service as summarised below:

| | Service pre 1 April 2008 | Service post 31 March 2008 |
|---|---|---|
| Pension | Each year worked is worth 1/80 X final pensionable salary | Each year worked is worth 1/60 X final pensionable salary |
| Lump Sum | Automatic lump sum of 3x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up. | No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up. |

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is up-rated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits.

## 2. BASIS OF PREPARATION

The statement of accounts summarises the Fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Fund Account – revenue recognition**

**Contribution income**
Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund Actuary in the payroll period to which they relate. Employers deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date. Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

**Transfers to and from other schemes**
Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with The Local Government Pension Scheme Regulations 2013 (see note 7). Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in (see note 7). Bulk (group) transfers are included for on an accruals basis in accordance with the terms of the transfer agreement.

**Investment Income**
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is also disclosed in the net assets statement as a current financial asset.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profit/losses during the year.

**Fund account – expense items**

**Benefits payable**
Pensions and lump sum benefits payable include all amounts known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

**Taxation**

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

**Management expenses**

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

**Investment management expenses**

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition, the Fund has negotiated with the following managers that an element of their fee will be performance related:-
Majedie Asset Management – UK Equities
Pimco Europe Ltd – Absolute Return Bonds
Blackrock – Hedge Fund
Investec Asset Management – Global Equities
Harris Associates – Global Equities
Performance related fees in 2017/18 £1.620m (2016/17 £1.060m).

Where an investment manager's fee note has not been received by the year-end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2017/18, £0.005m of fees is based on such estimates (2016/17 £0.005m).

**Net Assets Statement**

**Financial assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the day the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see note 14).

**Foreign Currency transactions**

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

**Cash**

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

**Financial liabilities**

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

**Additional voluntary contributions**

Shropshire County Pension Fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. Please see note 20 for further information.

## 4. CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The net pension fund liability is recalculated every three years by the Fund Actuary. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions which are agreed with the Actuary and have been summarised in note 17.

## 5. ASSUMPTIONS MADE ABOUT ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net assets statement as at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| Private Equity | Private Equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines 2012. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total private equity investments in the financial statements are £74.8 million. There is a risk that this investment may be under or over-stated in the accounts. |
| Hedge Funds | The hedge funds are valued at the sum of the fair values provided by the Administrators of the underlying funds plus any adjustments deemed necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total hedge fund value in the financial statements is £127.1 million. There is a risk that these investments may be under/over - stated in the accounts. |

## 6. EVENTS AFTER THE BALANCE SHEET DATE

These are events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. There have been no events between 31 March 2018, and when these accounts were authorised, that require any adjustments to be made.

## 7. ANALYSIS OF THE MAIN REVENUE ACCOUNT TRANSACTIONS

The following table provides further analysis of contributions received and benefits paid between the Administering Authority (Shropshire Council), Designated Bodies and Scheme Employers (Unitary, Town and Parish Councils) and Admission Bodies (Private bodies carrying out former Local Government functions or bodies providing a public service on a non-profit making basis).

| 2017/18 | Administering Authority £000 | Admission Bodies £000 | Designation Bodies/Scheme Employers £000 | Total £000 |
|---|---|---|---|---|
| Contributions Received | | | | |
| Employees | 5,132 | 1,966 | 6,951 | 14,049 |
| Employers | 35,026 | 6,499 | 22,558 | 64,083 |
| Transfers In | 2,676 | 781 | 2,548 | 6,005 |
| **Total Income** | **42,834** | **9,246** | **32,057** | **84,137** |
| Payments Made | | | | |
| Pensions | 33,875 | 6,985 | 15,655 | 56,515 |
| Lump Sums | 3,362 | 1,897 | 3,078 | 8,337 |
| Death Benefits | 490 | 397 | 385 | 1,272 |
| Refunds | 67 | 18 | 133 | 218 |
| Transfers Out | 2,643 | 840 | 1,766 | 5,249 |
| **Total Expenditure** | **40,437** | **10,137** | **21,017** | **71,591** |

| 2016/17 comparative figures | Administering Authority £000 | Admission Bodies £000 | Designation Bodies/Scheme Employers £000 | Total £000 |
|---|---|---|---|---|
| Contribution Received | | | | |
| Employees | 5,137 | 2,093 | 6,697 | 13,927 |
| Employers | 18,618 | 6,632 | 21,799 | 47,049 |
| Transfers In | 1,525 | 210 | 1,119 | 2,854 |
| **Total Income** | **25,280** | **8,935** | **29,615** | **63,830** |
| Payments Made | | | | |
| Pensions | 32,828 | 6,562 | 15,144 | 54,534 |
| Lump Sums | 2,916 | 1,772 | 4,333 | 9,021 |
| Death Benefits | 652 | 221 | 383 | 1,256 |
| Refunds | 108 | 29 | 161 | 298 |
| Transfers Out | 3,923 | 552 | 2,261 | 6,736 |
| **Total Expenditure** | **40,427** | **9,136** | **22,282** | **71,845** |

This table shows a breakdown of the employers contributions above:

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Employers normal contributions | 33,050 | 30,774 |
| Employers deficit contributions | *29,634 | 12,156 |
| Employers augmentation contributions | 1,399 | 4,119 |
| | **64,083** | **47,049** |

* Employers deficit contributions figure for 2017/18 includes upfront deficit payments covering three years for Shropshire Council, West Mercia Energy and Age UK.

## 8. MANAGEMENT EXPENSES

This analysis of the costs of managing the Shropshire County Pension Fund during the period has been prepared in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Administrative costs | 936 | 946 |
| Investment management expenses | 13,118 | 12,021 |
| Oversight and governance costs | 553 | 750 |
| | **14,607** | **13,717** |

Each external Investment Manager receives a fee for their services based on the market value of the assets they manage on the Funds behalf. Active managers are required to produce a specific target return in excess of their benchmark return and are paid a performance related fee (over and above a basic fee) for reaching required levels of outperformance. The management fees disclosed also include all investment management fees directly incurred by the Fund by pooled fund investments.

The investment management expenses shown below includes £1.620m (2016/17 £1.060m) in respect of performance related fees paid/payable to the Fund's investment managers.

It also includes £0.467m in respect of transaction costs (2016/17 £0.683m).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of Investments (see note 11a).

| | 2017/18<br>£000 | 2016/17<br>£000 |
|---|---|---|
| Management Fees | 8,635 | 8,516 |
| Performance Fees | 1,620 | 1,060 |
| Other Fees | 2,338 | 1,702 |
| Transaction Costs | 467 | 683 |
| Custody Fees | 58 | 60 |
| | **13,118** | **12,021** |

The costs incurred by the Council in administering the Fund totalled £0.936m for the year ended 31 March 2018 (2016/17 £0.946m).

| | 2017/18<br>£000 | 2016/17<br>£000 |
|---|---|---|
| Employee Costs | 624 | 573 |
| IT | 161 | 175 |
| Consultants | 27 | 67 |
| Printing & Postage | 49 | 55 |
| Office Accommodation | 22 | 22 |
| Subscriptions | 15 | 16 |
| Other Costs | 38 | 38 |
| | **936** | **946** |

The costs incurred by the Council in Oversight and Governance totalled £0.553m for the year ended 31 March 2018 (2016/17 £0.750m)

| | 2017/18<br>£000 | 2016/17<br>£000 |
|---|---|---|
| Investment advice | 312 | 226 |
| Employee costs (pensions investment) | 159 | 153 |
| Actuarial advice | 14 | 129 |
| Responsible engagement overlay | *(82) | 97 |
| Professional fees | 50 | 50 |
| External audit | 22 | 25 |

| | | |
|---|---|---|
| Performance analysis | 25 | 25 |
| Internal audit | 17 | 17 |
| Legal & Committee | 15 | 15 |
| Other Costs | 21 | 13 |
| | **553** | **750** |

* LGPS Central Pooling costs are shown as a negative figure in 2017/18 as cumulative costs incurred to date are due to be reimbursed back to Shropshire County Pension Fund by LGPS Central in 2018/19.

## 9. INVESTMENT INCOME

The table below analyses the investment income received by the Fund (mostly in the form of dividends) over the last 12 months.

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Dividends from equities | (7,312) | (6,943) |
| Income from pooled investment vehicles | (5,810) | (4,974) |
| Interest on cash deposits | (7) | (14) |
| Other | (11,806) | (11,224) |
| | **(24,935)** | **(23,155)** |

## 10. TAXES ON INCOME

This table breaks down the taxes on income by asset class.

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Withholding tax – Fixed interest securities | 0 | 0 |
| Withholding tax – equities | 311 | 97 |
| Withholding tax – pooled | 33 | 0 |
| | **344** | **97** |

## 11a. RECONCILIATION OF MOVEMENTS IN INVESTMENTS

| Investment type 2017/18 | Value as at 1 April £000 | Purchases at cost & derivative payments £000 | Sale evalua & derivative receipts £000 | Transition £000 | Other cash transactions £000 | Change in market value £000 | Value as at 31 March £000 |
|---|---|---|---|---|---|---|---|
| Equities | 263,900 | 92,244 | (84,169) | | | (7,466) | 264,509 |
| Pooled Investment Vehicles – Unitised Investment Vehicles | 0 | | | | | | 0 |
| Pooled Investment Vehicles – Other Managed Funds | 1,446,607 | 153,735 | (106,074) | | (1,736) | 39,702 | *1,532,234 |

| Investment type 2017/18 | Value as at 1 April £000 | Purchases at cost & derivative payments £000 | Sale evalua & derivative receipts £000 | Transition £000 | Other cash transactions £000 | Change in market value £000 | Value as at 31 March £000 |
|---|---|---|---|---|---|---|---|
| Other Investment Balances | 0 | 685 | | | | | 685 |
| **Sub total** | **1,710,507** | **246,664** | **(190,243)** | **0** | **(1,736)** | **32,236** | **1,797,428** |
| Cash deposits – with Managers | 54,084 | | (103) | | (21,011) | 111 | 33,081 |
| Temporary Investments | 2,520 | | | | (520) | | 2,000 |
| **Total** | **1,767,111** | **246,664** | **(190,346)** | **0** | **(23,267)** | ****32,347** | **1,832,509** |

* Within the Pooled Investment Vehicles - other managed funds total of £1532.234m are £201.902m of level 3 investments as at 31 March 2018. Within the Equities figure of £264.509 are £1.315m of level 3 investments as at 31 March 2018. The value of the level 3 investments were £174.372m as at 1st April 2017 which increased to £203.217m as at 31 March 2018. The increase in value is due to purchases of £62.067m, sales of £36.024m and change in market value of £2.802m.

** The total change in market value for 2017/18 as per the table above is £32.347m. This figure is made of up of profit on sales of £170.854m and also the difference between book cost and market value for the whole Fund which for 2017/18 was -£138.507m.

| Investment type 2017/18 comparative figures | Value as at 1 April £000 | Purchases at cost & derivative payments £000 | Sale evalua & derivative receipts £000 | Transition £000 | Other cash transactions £000 | Change in market value £000 | Value as at 31 March £000 |
|---|---|---|---|---|---|---|---|
| Equities | 213,865 | 101,680 | (121,297) | | | 69.652 | 263,900 |
| Pooled Investment Vehicles – Unitised Investment Vehicles | 162,999 | | (806) | (158,665) | | (3,528) | |
| Pooled Investment Vehicles – Other Managed Funds | 1,077,783 | 313,156 | (298,245) | 158,665 | (615) | 195,863 | *1,446,607 |
| **Sub total** | **1,454,647** | **414,836** | **(420,348)** | **0** | **(615)** | **261,987** | **1,710,507** |
| Cash deposits – with Managers | 38,116 | | | | 15,956 | 12 | 54,084 |
| Temporary Investments | 860 | | | | 1,660 | | 2,520 |
| **Total** | **1,493,623** | **414,836** | **(420,348)** | **0** | **17,001** | ****261,999** | **1,767,111** |

* Within the Pooled Investment Vehicles - other managed funds total of £1446.607m are £174.372m of level 3 investments as at 31 March 2017. The value of the level 3 investments were £214.739m as at 1st April 2016 which decreased to £174.372m as at 31 March 2017. The decrease in value is due to purchases of £18.711m, sales of £68.025m and change in market value of £8.946m.

** The total change in market value for 2016/17 as per the table above is £261.999m. This figure is made of up of profit on sales of £133.785m and also the difference between book cost and market value for the whole Fund which for 2016/17 was £128.214m.

## 11b. ANALYSIS OF INVESTMENTS (EXCLUDING DERIVATIVE CONTRACTS)

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Equities** | | |
| UK | | |
| Quoted | 121,917 | 118,440 |
| Unquoted | 1,315 | 0 |
| Overseas | | |
| Quoted | 141,277 | 145,449 |
| **Total Equities** | **264,509** | **263,889** |
| **Pooled Funds – additional analysis** | | |
| UK | | |
| Unit Trusts | 12,621 | 12,372 |
| Overseas | | |
| Unit Trusts | 1,173,133 | 1,139,205 |
| Hedge Funds | 127,140 | 100,106 |
| Pooled property investments | 93,757 | 77,476 |
| Private Equity | 74,762 | 74,266 |
| Infrastructure | 50,821 | 43,192 |
| **Total Pooled Funds** | **1,532,234** | **1,446,617** |
| **Other Investment Balances** | | |
| Loans | 685 | 0 |
| **Total** | **1,797,428** | **1,710,506** |

## 12. STOCK LENDING

The Fund participates in a stock lending programme with its Custodian, Northern Trust to lend eligible securities from within its portfolio of stocks to third parties in return for collateral. Collateral is restricted to AAA Sovereign debt (the highest rated collateral available).

Collateralised lending generated income of £0.067m in 2017/18 and this is included within investment income in the Pension Fund Account. At 31 March 2018 £16.312m worth of stock (via the Custodian) was on loan, for which the Fund was in receipt (via the Custodian) of £17.346m worth of collateral representing 106% of stock on loan.

Although stock lending involves the transfer of title of those securities to the borrower, the lender’s rights to the normal benefits and corporate actions that would have arisen had the asset not been lent are protected. The lender thus retains an economic interest in the securities transferred. During the period stock is on loan, the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

## 13. ANALYSIS OF DERIVATIVES

Between November 2007 and September 2013 the Fund passively hedged 50% of all currency exposure to eliminate some of the risks over the longer term involved in holding an increased proportion of overseas investments. In 2013 a decision was made to terminate the contract with Northern Trust who provided this service due to the restructure of the Fund which took place on 30 September 2013.

From September 2013, Legal & General, who manage the global equity passive portfolio, hedge 100% of their foreign currency exposure back to sterling.

## 14. FAIR VALUE – BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

| Description of asset | Valuation hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| Market quoted investments | Level 1 | Published bid market price ruling on the final day of accounting period | Not required | Not required |
| Quoted bonds | Level 1 | Fixed interest securities are valued at a market value based on current yields | Not required | Not required |
| Pooled investments – overseas unit trusts and property funds | Level 2 | Closing bid price where bid and offer prices are published. Closing single price where single price published | NAV based pricing set on a forward pricing basis | Not required |
| Infrastructure | Level 2 | Valued at the net asset value or a single price advised by the fund manager | EBITDA multiple, revenue multiple, discount for lack of marketability, control premium | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date by changes in cashflows. |
| Private Equity | Level 3 | Valued based on the Fund's share of the net assets in the fund or limited partnership using the latest financial statements in accordance with the International Private Equity and Venture | EBITDA multiple, revenue multiple, discount for lack of marketability, control premium | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date by changes in |

| Description of asset | Valuation hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| | | Capital guidelines 2012 | | cashflows. |
| Hedge Funds | Level 3 | Closing bid price where bid and offer prices are published. Closing single price where single price published | NAV based pricing set on a forward pricing basis | Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date by changes in cashflows. |

**Sensitivity of assets valued at level 3**

The table below sets out the assets which have been categorised at level 3. The figures have been derived using the valuation methods adopted by each of the relevant investment managers and are assumed to be accurate. The table also sets out the consequential potential impact on the closing value of investments if these valuations were inaccurate, based on an indicative movement of 5% on the value of investments held as at 31 March 2018.

| Asset | Assessed valuation range (=/-) | Value as at 31-Mar-18 £000 | Value on increase £000 | Value on decrease £000 |
|---|---|---|---|---|
| Private Equity | 5% | 74,762 | 78,500 | 71,024 |
| | 5% | 127,140 | 133,497 | 120,783 |
| Unquoted UK Equity | 5% | 1,315 | 1,381 | 1,249 |
| **Total** | | **203,217** | **213,378** | **193,056** |

## 14a. FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur, during 2017/18 however there were no transfers identified.

**Level 1:**

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

**Level 2:**
Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

**Level 3:**
Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which Shropshire County Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are undertaken quarterly, however, lag a quarter behind so the valuation in the accounts is as at 30th September 2017. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in hedge funds are based on the net asset value provided by the fund manager. In previous years this value has been as at March, however, due to the early closedown deadline from this year onwards the valuation in the accounts are based on February 2018. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

| Asset type<br>2017/18 | Investment Manager | Investment Type | Market Value<br>£000 | Quoted market price<br>Level 1<br>£000 | Using observable inputs<br>Level 2<br>£000 | With significant evaluation inputs<br>Level 3<br>£000 |
|---|---|---|---|---|---|---|
| Equities | Majedie Asset Management | UK Equities | 119,206 | 119,206 | | |
| | LGPS Central | UK Equities (unquoted) | 1,315 | | | 1,315 |
| | Harris Associates | Global Equities | 143,979 | 143,979 | | |
| Pooled Investment Vehicles | Majedie Asset Management | UK Pooled Fund | 12,621 | 12,621 | | |
| | Pimco Europe Ltd | Global Aggregate Bonds | 146,524 | 146,524 | | |
| | MFS | Global Equities | 156,068 | 156,068 | | |
| | HarbourVest Partners Ltd | Private Equity | 74,762 | | | 74,762 |
| | Aberdeen Property | Property Unit Trusts | 93,757 | | 93,757 | |

| Asset type 2017/18 | Investment Manager | Investment Type | Market Value £000 | Quoted market price Level 1 £000 | Using observable inputs Level 2 £000 | With significant evaluation inputs Level 3 £000 |
|---|---|---|---|---|---|---|
| | Investors Blackrock | Hedge Fund | 127,140 | | | 127,140 |
| | Global Infrastructure Partners | Infrastructure | 50,821 | | 50,821 | |
| | Legal & General | Global Equities | 367,277 | 367,277 | | |
| | Investec | Global Equities | 150,280 | 150,280 | | |
| | Blackrock | Fixed Interest | 140,811 | 140,811 | | |
| | GAM | Absolute Return Bonds | 142,183 | | 142,183 | |
| | BMO | LDI | 69,991 | 69,991 | | |
| Net Current Assets (incl cash) | | | 37,081 | 37,081 | | |
| **Total** | | | **1,833,816** | **1,343,838** | **286,761** | **203,217** |

| Asset type 2016/17 | Investment Manager | Investment Type | Market Value £000 | Quoted market price Level 1 £000 | Using observable inputs Level 2 £000 | With significant evaluation inputs Level 3 £000 |
|---|---|---|---|---|---|---|
| Equities | Majedie Asset Management | UK Equities | 120,148 | 120,148 | | |
| | Harris Associates | Global Equities | 143,741 | 143,741 | | |
| Pooled Investment Vehicles | Majedie Asset Management | UK Pooled Fund | 12,372 | 12,372 | | |
| | Pimco Europe Ltd | Global Aggregate Bonds | 146,028 | 146,028 | | |
| | MFS | Global Equities | 154,295 | 154,295 | | |
| | HarbourVest Partners Ltd | Private Equity | 74,266 | | | 74,266 |
| | Aberdeen Property Investors | Property Unit Trusts | 77,476 | | 77,476 | |
| | Blackrock | Hedge Fund | 80,627 | | | 80,627 |
| | Global Infrastructure Partners | Infrastructure | 43,192 | | 43,192 | |
| | Legal & General | Global Equities | 341,195 | 341,195 | | |
| | Investec | Global Equities | 147,195 | 147,195 | | |
| | Brevan Howard | Hedge Fund | 19,479 | | | 19,479 |
| | Blackrock | Fixed Interest | 137,777 | 137,777 | | |
| | GAM | Absolute Return Bonds | 139,878 | | 139,878 | |
| | BMO | LDI | 72,826 | 72,826 | | |
| Net Current Assets (incl cash) | | | 57,775 | 57,775 | | |
| **Total** | | | **1,768,270** | **1,333,352** | **260,546** | **174,372** |

## 15. FINANCIAL INSTRUMENTS

### 15a. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

| | 31 March 2018 | | | 31 March 2017 | | |
|---|---|---|---|---|---|---|
| | Fair value through profit & loss £000 | Loans & receivables £000 | Financial liabilities at amortised cost £000 | Fair value through profit & loss £000 | Loans & receivables £000 | Financial liabilities at amortised cost £000 |
| **Financial Assets** | | | | | | |
| Equities | 264,509 | | | 263,900 | | |
| Pooled Investment Vehicles – Other Managed Funds | 1,532,234 | | | 1,446,606 | | |
| Other Investment Balances - Loans | | 685 | | | | |
| Cash | | 34,862 | | | 56,505 | |
| Debtors | | 4,496 | | | 3,930 | |
| **Total Assets** | **1,796,743** | **40,043** | **0** | **1,710,506** | **60,435** | **0** |
| **Financial Liabilities** | | | | | | |
| Creditors | | | (2,970) | | | (2,671) |
| **Total Liabilities** | **0** | **0** | **(2,970)** | **0** | **0** | **(2,671)** |
| **Total** | **1,796,743** | **40,043** | **(2,970)** | **1,710,506** | **60,435** | **(2,671)** |

### 15b. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Financial Assets** | | |
| Fair value through profit and loss | 32,347 | 261,999 |
| Loans and receivables | 0 | 0 |
| Financial liabilities measured at amortised cost | 0 | 0 |
| **Financial Liabilities** | | |
| Fair value through profit and loss | 0 | 0 |
| Loans and receivables | 0 | 0 |
| Financial liabilities measured at amortised cost | 0 | 0 |
| | **32,347** | **261,999** |

## 16. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

**Risk and Risk Management**

The Fund's primary long term risk is that its assets will fall short of its liabilities (i.e. promised benefits to pay members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price, currency and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

**Market risk**
Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the assets mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.
The Fund manages these risks in two ways:

1. The exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
2. Specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

**Other price risk**
Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

**Other price risk – sensitivity analysis**
Following analysis of historic data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, it has been determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period. The potential price changes disclosed below are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

| Asset Type | Potential market movements (+/-) |
|---|---|
| UK Equities | 19.2% |
| Global Unconstrained Equities | 21.2% |
| Global Equities (passive) | 20.2% |
| Property | 12.7% |
| Private Equity | 27.6% |
| Hedge Funds | 9.3% |
| Unconstrained bonds | 5.2% |
| Infrastructure | 18.6% |
| LDI | 31.4% |

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows.

| Asset type<br>2017/18 | Value as at 31 March 2018<br>£000 | Potential market movement<br>£000 | Value on increase<br>£000 | Value on decrease<br>£000 |
|---|---|---|---|---|
| **Net Assets including Cash** | 37,073 | 0 | 37,073 | 37,073 |
| **Investment Portfolio Assets** | | | | |
| UK Equities | 135,853 | 26,084 | 161,937 | 109,769 |
| Global Equities (unconstrained) | 447,625 | 94,897 | 542,522 | 352,728 |
| Global Equities (passive) | 367,277 | 74,190 | 441,467 | 293,087 |
| Unconstrained Bonds | 429,517 | 22,335 | 451,852 | 407,182 |
| Property | 93,757 | 11,907 | 105,664 | 81,850 |
| Private Equity | 74,762 | 20,634 | 95,396 | 54,128 |
| Hedge Funds | 127,140 | 11,824 | 138,964 | 115,316 |
| Infrastructure | 50,821 | 9,453 | 60,274 | 41,368 |
| LDI | 69,991 | 21,977 | 91,968 | 48,014 |
| **Total assets available to pay benefits** | **1,833,816** | **293,301** | **2,127,117** | **1,540,515** |

| Asset type<br>2016/17 | Value as at 31 March 2017<br>£000 | Potential market movement<br>£000 | Value on increase<br>£000 | Value on decrease<br>£000 |
|---|---|---|---|---|
| **Net Assets including Cash** | 57,764 | 0 | 57,764 | 57,764 |
| **Investment Portfolio Assets** | | | | |
| UK Equities | 130,812 | 25,116 | 155,928 | 105,696 |
| Global Equities (unconstrained) | 446,950 | 94,753 | 541,703 | 352,197 |
| Global Equities (passive) | 341,195 | 68,921 | 410,116 | 272,274 |
| Unconstrained Bonds | 423,684 | 22,032 | 445,716 | 401,652 |
| Property | 77,476 | 9,839 | 87,315 | 67,637 |
| Private Equity | 74,265 | 20,497 | 94,762 | 53,768 |
| Hedge Funds | 100,106 | 9,310 | 109,416 | 90,796 |
| Infrastructure | 43,192 | 8,034 | 51,226 | 35,158 |
| LDI | 72,826 | 22,867 | 95,693 | 49,959 |
| **Total assets available to pay benefits** | **1,768,270** | **281,369** | **2,049,639** | **1,486,901** |

**Interest rate risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

| Asset Type | As at 31 March 2018 £000 | As at 31 March 2017 £000 |
|---|---|---|
| Cash and cash equivalents | 28,270 | 51,010 |
| Cash balances* | (219) | (99) |
| Bonds | 429,517 | 423,684 |
| **Total change in assets available** | **457,568** | **474,595** |

*overdrawn cash balance as at 31st March 2017 & 31st March 2018

The Council recognises that interest rates can vary and can affect both income to the Fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

The following analysis shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates assuming all variables, in particular exchange rates, remain constant.

| Assets exposed to interest rate risk | Value as at 31 March £000 | Potential movement on 1% change in interest rates £000 | Value on increase £000 | Value on decrease £000 |
|---|---|---|---|---|
| **As at 31 March 2018** | | | | |
| Cash and cash equivalents | 28,270 | 0 | 28,270 | 28,270 |
| Cash balances | (219) | 0 | (219) | (219) |
| Bonds | 429,517 | 4,295 | 433,812 | 425,222 |
| **Total** | **457,568** | **4,295** | **461,863** | **453,273** |

| Assets exposed to interest rate risk | Value as at 31 March £000 | Potential movement on 1% change in interest rates £000 | Value on increase £000 | Value on decrease £000 |
|---|---|---|---|---|
| **As at 31 March 2017** | | | | |

| Assets exposed to interest rate risk | Value as at 31 March £000 | Potential movement on 1% change in interest rates £000 | Value on increase £000 | Value on decrease £000 |
|---|---|---|---|---|
| Cash and cash equivalents | 51,010 | 0 | 51,010 | 51,010 |
| Cash balances | (99) | 0 | (99) | (99) |
| Bonds | 423,684 | 4,237 | 427,921 | 419,447 |
| **Total** | **474,595** | **4,237** | **478,832** | **470,358** |

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

During 2017/18 the Fund received £0.07m in interest from surplus pension fund revenue cash. This was either invested in call accounts which are classified as a variable rate investment or a fixed term deposit. If interest rates throughout the year had been 1% higher this would have increased the amount of interest earned on these investments by £0.032m. The impact of a 1% fall in interest rates would therefore imply a negative interest rate and therefore it is assumed no interest would have been received or charged on these investments.

**Currency risk**

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the currency of the Fund (UK sterling). The Fund's currency rate risk is routinely monitored by its investment advisor in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations. The following table summarises the Fund's currency exposure as at 31 March 2018 and as at the previous year end:

| Currency exposure – asset type | As at 31 March 2018 £000 | As at 31 March 2017 £000 |
|---|---|---|
| Overseas Equities | 420,886 | 419,612 |
| Overseas Pooled Fixed Interest | 2,915 | 8,337 |
| Overseas Private Equity | 74,762 | 74,266 |
| Overseas Pooled Property | 10,960 | 20,583 |
| Overseas Infrastructure | 50,821 | 43,192 |
| **Total change in assets available** | **560,344** | **565,990** |

Following analysis of historical data the Fund considers the likely volatility associated with foreign exchange rate movements to be 11% (as measured by one standard deviation). An 11% fluctuation in the currency is considered reasonable based on historical movements in the month end exchange rates over a rolling 36 month period assuming all other variables, in particular, interest rates, remain constant. An 11% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| Assets exposed to currency risk | Value as at 31 March £000 | Potential market movement £000 | Value on increase £000 11% | Value on decrease £000 11% |
|---|---|---|---|---|
| **As at 31 March 2018** | | | | |
| Overseas Equities | 420,886 | 46,297 | 467,183 | 374,589 |
| Overseas Fixed Interest | 2,915 | 321 | 3,236 | 2,594 |
| Overseas Private Equity | 74,762 | 8,224 | 82,986 | 66,538 |
| Overseas Pooled Property | 10,960 | 1,206 | 12,166 | 9,754 |
| Overseas Infrastructure | 50,821 | 5,590 | 56,411 | 45,231 |
| **Total change in assets available** | **560,344** | **61,638** | **621,982** | **498,706** |

| Assets exposed to currency risk | Value as at 31 March £000 | Potential market movement £000 | Value on increase £000 11% | Value on decrease £000 11% |
|---|---|---|---|---|
| **As at 31 March 2017** | | | | |
| Overseas Equities | 419,612 | 46,157 | 465,769 | 373,455 |
| Overseas Fixed Interest | 8,337 | 0,917 | 9,254 | 7,420 |
| Overseas Private Equity | 74,266 | 8,169 | 82,435 | 66,097 |
| Overseas Pooled Property | 20,583 | 2,264 | 22,847 | 18,319 |
| Overseas Infrastructure | 43,192 | 4,751 | 47,943 | 38,441 |
| **Total** | **565,990** | **62,258** | **628,248** | **503,732** |

**Credit Risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market value of investments generally reflects an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence the Fund's entire investment portfolio is exposed to some form of credit risk, (the Fund currently does not hold any, but derivatives positions would be an exception here, where risk equates to the net market value of a positive derivative position). However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The investment priorities for the management of the pension fund revenue cash held for day to day transactions are the security of the principal sums it invests. The enhancement of returns is a secondary consideration to the reduction of minimisation of risk. Accordingly, the Administering Authority ensures that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited.

The main criteria for determining the suitability of investment counterparties is outlined in the Administering Authority's creditworthiness policy which the Pension Fund has also adopted and approved as part of the annual Pension Fund Treasury strategy.

The Fund's lending list is reviewed continuously in conjunction with the Administering Authority's treasury advisor. The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. The maximum amount is currently limited to £4,000,000. With security of capital being the main priority, lending continues to be restricted to highly credit rated institutions, part nationalised institutions and other Local Authorities. In addition to credit ratings the Administering Authority continually monitors the financial press and removes institutions from its approved lending list immediately if appropriate.

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements as at 31st March 2018 was £2.0m (31 March 2017 £2.520m). This was held with the following institutions.

| Asset type | Rating | As at 31 March 2018 £000 | As at 31 March 2017 £000 |
|---|---|---|---|
| Lloyds Bank Fixed Term deposit | A+ | 0 | 520 |
| Handelsbanken Instant Access Account | AA | 2,000 | 2,000 |
| **Total** | | **2,000** | **2,520** |

**Liquidity risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due i.e. that cash is not available when required. The Fund therefore takes steps to ensure that the Pension Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs and also cash to meet investment commitments.

The Council has immediate access to cash through two instant access accounts which at any one time could have up to £6 million available in total. The Fund also has the ability to access immediate cash held by Northern Trust which as at 31 March 2018 was £18.660m. The Fund does not have access to an overdraft facility.

Officers prepare a daily cash flow forecast to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the investment strategy.

All financial liabilities at 31 March 2018 are due within one year.

## 17. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016 and the next valuation will take place as at 31 March 2019.

The key elements of the funding policy are:

- To ensure the long term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment

- To ensure that employer contribution rates are as stable as possible
- To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- To reflect the different characteristics of employing bodies in determining contribution rates where it considers it reasonable to do so
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations

The aim is to achieve 100% solvency over a period of 22 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. For each individual employer, the funding objective, method and assumptions depend on a particular employer's circumstances and different approaches have been adopted where applicable, in accordance with the Funding Strategy Statement.

At the 2016 actuarial valuation, the Fund was assessed as 84% funded (76% at the March 2013 valuation). This corresponded to a deficit of £278 million (2013 valuation was £383 million) at that time. Revised contributions set by the 2016 valuation will be introduced in 2017/18 and the common contribution rate (i.e. the average employer contribution rate in respect of future service only) is 14.9% of pensionable pay (14% at the March 2013 valuation).

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were as follows:

| Financial assumptions | 31 March 2016 | 31 March 2013 |
|---|---|---|
| Discount rate | 4.55% p.a. | 4.95% p.a. |
| Assumed long term CPI inflation | 2.2% p.a. | 2.6% p.a. |
| Salary increases – long term | 3.7% p.a. | 4.1% p.a. |
| Salary increases – short term | 1% p.a. for 4 years | 1% p.a. for 3 years |
| Pension increases in payment | 2.2% p.a | 2.6% p.a. |

The post retirement mortality tables are the S2PA tables. These base tables are then projected using the CMI 2015 model, allowing for a long-term rate of improvement of 1.5% per year. The assumed life expectancy from age 65 is as follows

| Demographic assumptions | | 31 March 2016 | 31 March 2013 |
|---|---|---|---|
| Current pensioners (at age 65) | Males | 22.9 | 23.7 |
| | Females | 26.1 | 26.0 |
| Future pensioners (assumed current age 45) | Males | 25.1 | 25.9 |
| | Females | 28.4 | 28.8 |

It is assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take a 3/80ths cash sum (which is the standard for pre April 2008 service).

## 18. ANALYSIS OF DEBTORS

Provision has been made for debtors known to be outstanding as at 31 March 2018. An analysis of debtors is shown below:

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Central Government bodies | 458 | 147 |
| Other Local Authorities | 1,503 | 1,615 |
| Other entities and individuals | 2,535 | 2,168 |
| **Total** | **4,496** | **3,930** |

## 19. ANALYSIS OF CREDITORS

Provision has also been made for creditors known to be outstanding at 31 March 2018. An analysis of creditors is shown below:

| | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Central Government bodies | (579) | (592) |
| Other Local Authorities | (1,151) | (189) |
| Other entities and individuals | (1,240) | (1,890) |
| **Total** | **(2,970)** | **(2,671)** |

## 20. ADDITIONAL VOLUNTARY CONTRIBUTIONS

Scheme members have the option to make Additional Voluntary Contributions (AVC's) to enhance their pension benefits. These contributions are invested with an appropriate provider and used to purchase an annuity at retirement. Contributions are paid directly from scheme members to the AVC provider and are therefore not represented in these accounts in accordance with regulation 4 (1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Contributions are invested in with-profit, unit linked or deposit funds of the scheme member. At present there are around 542 scheme members with AVC policies. These policies are held either by Equitable Life or Prudential.

During 2017/18 contributions to the schemes amounted to £0.697m. The combined value of the AVC funds as at 31 March 2018 was £5.009m.

## 21. RELATED PARTY TRANSACTIONS

The Shropshire County Pension Fund is administered by Shropshire Council. Consequently there is a strong relationship between the Council and the Pension Fund. Shropshire Council incurred costs of £1.168m (2016/17 £1.173m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

Shropshire Council is also the single largest employer of members of the pension fund and contributed £34.613m (2016/17 £18.274m). All monies owing to the Fund were paid across in the year. Shropshire Council chose to pay all its deficit payments in 2017/18 rather than over the usual three years and this accounts for the variation between 2017/18 and 2016/17 figures noted above. The Scheme Administrator of the Shropshire County Pension Fund is also the Head of Finance, Governance & Assurance for Shropshire Council.

Several employees of Shropshire Council hold key positions in the financial management of the Shropshire County Pension Fund. The Head of Finance, Governance & Assurance (s151 Officer & Scheme Administrator), the Head of Treasury and Pensions, the Treasury Accountant, the Investment Officer and the Pensions Administration Manager are all active members of the Fund.

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members' allowances detailed in section 3.4 of the Code (which are derived from the requirements of Regulation 7(2)-(4)of the Accounts and Audit (England) Regulations 2011 and Regulation 7A of the Accounts and Audit (Wales) Regulations 2005) satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 24. This applies in equal measure to the accounts of the Shropshire County Pension Fund.

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of Shropshire Council.

Under the Local Government Pension Scheme 1997 Regulations, Councillors were entitled to join the scheme. Legislation which came into force on 1 April 2014 meant the LGPS was only available to councillors and elected mayors of an English County Council or District Council who elected to join before 31 March 2014. From 1 April 2014 access to the LGPS for councillors was removed and those councillor members who were in the Scheme on the 31 March 2014 could only remain in the Scheme until the end of their current term of office. The remaining active councillor members were removed from the Scheme in May 2017 at the end of their individual office. All councillor members who sit on the Pension Fund Committee who joined the LGPS before 31 March 2014 are now either deferred or pensioner members of the Fund.

LGPS Central Ltd has been established to manage investment assets on behalf of nine Local Government Pension Scheme (LGPS) funds across the Midlands. It is jointly owned in equal shares by the eight administering authorities participating in the Pool.
No services were provided by LGPS Central Ltd during 2017/18 as operation only commenced in April 2018.
£1,315,000 has been invested in share capital and £685,000 in a loan to LGPS Central during the year. These are the balances at year end.

£416,890 has been spent by Shropshire County Pension Fund on setting up LGPS Central during the year. These costs were borne by West Midlands Pension Fund and then recharged equally to the administering authorities. A total of £499,260 is due to be refunded to

Shropshire County Pension Fund by LGPS Central during 2018/19 reflecting the cost of setting up the enterprise to the end of March 18.

## 22. CONTRACTUAL COMMITMENTS

The Fund has a 5% (£92 million) strategic asset allocation to Private Equity. It is necessary to over commit the strategic asset allocation because some private equity investments will mature and be repaid before the committed capital is fully invested.

As at 31 March 2018 £209m has been committed to investment in private equity via a fund of funds manager (HarbourVest Partners). Investment in this asset class will be made as opportunities arise over the next 2-3 years. As at 31 March 2018 the funds Private Equity investments totalled £74.762m.

## 23. CONTINGENT ASSETS

14 admitted body employers in the Shropshire County Pension Fund hold bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

## 24. VALUE ADDED TAX

The Fund is reimbursed VAT by HM Revenue and Customs. The accounts are shown exclusive of VAT.

## 25. CUSTODY OF INVESTMENTS

Custodial Services are provided to the Fund by Northern Trust. This includes the safekeeping of assets, the collection of income, the exercise of voting rights and the monitoring and execution of corporate actions in conjunction with investment managers. The Custodian also provides independent confirmation of the assets and their value held by the Fund. Securities are held on a segregated basis via a nominee account and are clearly separated from the Custodian's own assets.

## 26. FUND AUDITORS

Grant Thornton has completed its audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practice Board. The Audit Certificate is published within this report.

## 27. PENSION FUND BANK ACCOUNT

Since April 2010 all income received for the pension fund has been paid into a separate pension fund bank account. The balance on this account is monitored daily and surplus cash balances invested and as at 31 March 2018 £2.0 million was invested. The cash balance in the Pension Fund account as at the same date was overdrawn £0.219m.

## 28. FUND STRUCTURE UPDATE

At the June 2016 Pensions Committee, members decided that all funds with Brevan Howard, one of the funds hedge fund managers, should be redeemed. Funds were redeemed in 25% instalments over a 12 month period with 75% of the value of the portfolio being redeemed in 2016/17 and the final amount being redeemed in June 2017. These funds have been invested with Pimco in the absolute bond fund portfolio and Blackrock the Fund’s other hedge fund manager.

In September 2017, an equity protection strategy was implemented with Legal & General one of the Fund’s existing managers. The strategy is currently being used to reduce equity risk while the Fund considers making allocations to other investments with £280 million of equities being protected.

In March 2018, Pension Committee agreed to appoint an Insurance Linked Securities and Property Debt manager and reduce the overall allocation to equities. These changes will be implemented during 2018/19.

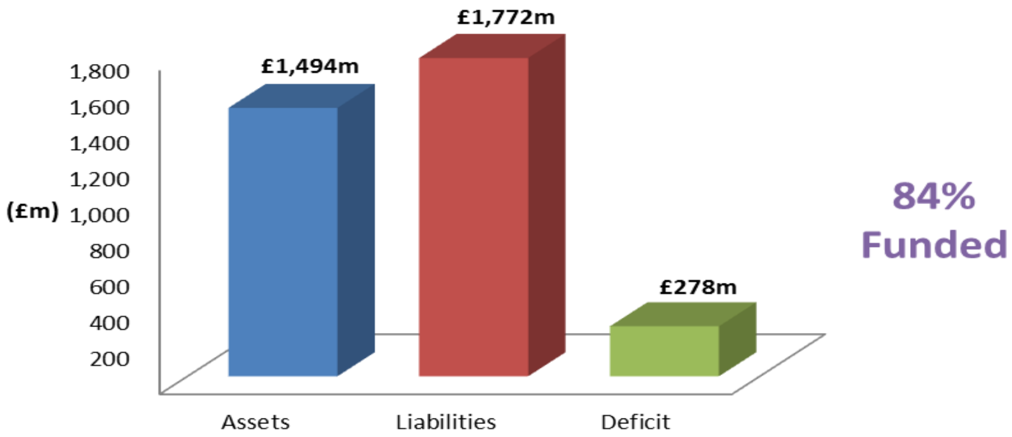
## SHROPSHIRE COUNTY PENSION FUND

### Accounts for the year ended 31 March 2018
### Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Shropshire County Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £1,494 million represented 84% of the Fund's past service liabilities of £1,772 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £278 million.




The valuation also showed that a Primary contribution rate of 14.9% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus). The Secondary rate of the employer's contribution is an adjustment to the Primary rate to arrive at the overall rate the employers are required to pay.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 22 years, and the total initial recovery payment (the "Secondary rate") for 2018/19 is approximately £15.1 million (this allows for some employers to phase in any increases or prepay in April 2017). For most employers, the Secondary rate will increase at 3.7% per annum. Other employers have opted to pay a higher non-increasing contribution over the recovery period. With the agreement of the Administering Authority employers may also opt to pay some of their employer contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution were as follows:

| | For past service liabilities (Funding Target) | For future service liabilities (Primary rate of contribution) |
|---|---|---|
| Rate of return on investments (discount rate) | 4.55% per annum | 4.95% per annum |
| Rate of pay increases (long term)* | 3.7% per annum | 3.7% per annum |
| Rate of increases in pensions in payment (in excess of GMP) | 2.2% per annum | 2.2% per annum |

* allowance was also made for short-term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

## Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2018 (the 31 March 2017 assumptions are included for comparison):

| | 31 March 2017 | 31 March 2018 |
|---|---|---|
| Rate of return on investments (discount rate) | 2.5% per annum | 2.6% per annum |
| Rate of CPI Inflation / CARE benefit revaluation | 2.3% per annum | 2.1% per annum |
| Rate of pay increases* | 3.8% per annum | 3.6% per annum |
| Rate of increases in pensions in payment (in excess of GMP) / Deferred revaluation | 2.3% per annum | 2.2% per annum |

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields rose, resulting in a higher discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected rate of increases in pensions in payments decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £2,669 million. Interest over the year increased the liabilities by c£67 million, and allowing for net benefits accrued/paid over the period also increased the liabilities by c£23 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £100 million due to "actuarial gains" (i.e. the effect of the changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £2,659 million.

John Livesey
Fellow of the Institute and Faculty of Actuaries

Mark Wilson
Fellow of the Institute and Faculty of Actuaries

Mercer Limited
May 2018

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHROPSHIRE COUNCIL

We have audited the pension fund financial statements of Shropshire Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Head of Finance, Governance and Assurance and auditor

As explained more fully in the Statement of the Head of Finance, Governance and Assurance's Responsibilities, the Head of Finance, Governance and Assurance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance, Governance and Assurance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts and the Annual Report to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on the pension fund financial statements**

In our opinion:

· the pension fund financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay pensions and benefits after the end of the fund year; and

· the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

**Opinion on other matters**

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts and the Annual Report for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

John Gregory
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

XX July 2018

## Section 8

# Housing Revenue Account

# HOUSING REVENUE ACCOUNT

The Housing Revenue Account Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

## HRA INCOME AND EXPENDITURE STATEMENT

| 2016/17 | | 2017/18 | |
|---|---|---|---|
| £ | | £ | £ |
| | **Expenditure** | | |
| 4,989,750 | Repairs & Maintenance | 5,246,757 | |
| 3,384,030 | Supervision and Management | 3,313,041 | |
| 95,232 | Rents, rates taxes and other charges | 99,537 | |
| 3,377,320 | Depreciation – Dwellings | 3,826,840 | |
| 171,460 | - Other | 166,570 | |
| (2,048,323) | Impairment, revaluation losses and (reversals of impairment or evaluation losses) | (3,602,026) | |
| (28,229,723) | Exceptional costs relating to revaluation gain on Housing Dwellings | 0 | |
| 28,420 | Debt Management Costs | 30,240 | |
| 50,000 | Provision for Bad or Doubtful Debts | 20,000 | |
| **(18,181,834)** | **Total Expenditure** | | **9,100,959** |
| | **Income** | | |
| (17,771,888) | Dwelling Rents | (17,521,554) | |
| (154,262) | Non Dwelling Rents | (134,570) | |
| (19,486) | Other Income | (28,691) | |
| (449,820) | Charges for Services and Facilities | (495,247) | |
| (208,310) | Contributions towards expenditure | (623,928) | |
| **(18,603,766)** | **Total Income** | | **(18,803,990)** |
| **(36,785,600)** | **Net Cost of HRA Services included in the Comprehensive I&E Statement** | | **(9,703,031)** |
| 175,890 | HRA Share of Corporate & Democratic Core | | 138,690 |
| **(36,609,710)** | **Net Cost of HRA Services** | | **(9,564,341)** |
| (537,080) | (Gain) or loss on sale of HRA Assets | | (154,394) |
| 2,993,361 | Interest payable and similar charges | | 2,991,963 |
| (58,572) | Interest and Investment Income | | (61,469) |
| (33,681) | Income & Expenditure in relation to investment properties & change in fair values | | (23,319) |
| **(34,245,682)** | **(Surplus) or deficit for the year on HRA Services** | | **(6,811,560)** |

# HOUSING REVENUE ACCOUNT

## MOVEMENT ON THE HRA STATEMENT

| 2016/17 £ | | 2017/18 £ |
|---|---|---|
| **(5,823,223)** | **Balance on the HRA at the end of the previous year** | **(9,031,220)** |
| **(34,245,682)** | **(Surplus)/Deficit for the year on the HRA Income and Expenditure Statement** | **(6,811,560)** |
| 31,037,685 | Adjustments between accounting basis and funding basis under statute | 7,617,959 |
| **(3,207,997)** | **Net increase or (decrease) before transfers to or from reserves** | **806,399** |
| 0 | Transfers to or (from) Reserves | 0 |
| **(3,207,997)** | **(Increase) or Decrease in year on the HRA** | **806,399** |
| **(9,031,220)** | **Balance on the HRA at the end of the current year** | **(8,224,821)** |

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1. HOUSING STOCK

| | 2017/18 | 2016/17 |
|---|---|---|
| **Total Number of Dwellings at 31 March :** | | |
| Houses and Bungalows | 3,227 | 3,246 |
| Flats | 867 | 866 |
| | **4,094** | **4,112** |
| **Change in Stock** | | |
| Stock at 1 April | 4,112 | 4,113 |
| Less: Sales – Right to Buy | (36) | (28) |
| Sales – Other | (1) | 0 |
| Disposal/restructuring | 0 | 0 |
| Acquisition – full ownership | 14 | 27 |
| Acquisition – shared ownership | 5 | 0 |
| | **4,094** | **4,112** |

### 2. RENT ARREARS

| | 2017/18 £ | 2016/17 £ |
|---|---|---|
| Due from Current Tenants | 106,247 | 105,090 |
| Due from Former Tenants | 107,861 | 128,576 |
| **Total Rent Arrears as at 31 March** | **214,108** | **233,666** |
| Pre-Payments | (350,589) | (322,469) |
| **Net Arrears** | **(136,481)** | **(88,803)** |

As at 31 March 2018, the total provision set aside for HRA related bad debts is £365k.

## 3. BALANCE SHEET VALUE OF ASSETS

| | Council Dwellings £ | Other Land & Buildings £ | Infrastructure Assets £ | Assets Under Construction £ | Total Property, Plant & Equipment £ | Investment Properties £ | Current Assets Held for Sale £ | Total £ |
|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | | | | | | | | |
| **At 1 April 2017** | **190,088,150** | **780,000** | **157,493** | **208,919** | **191,234,562** | **259,250** | **363,769** | **191,857,581** |
| Additions | 6,483,090 | 348,428 | 26,062 | 0 | **6,857,580** | 0 | 0 | **6,857,580** |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 29,719 | 10,000 | 0 | 0 | **39,719** | 0 | 0 | **39,719** |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (224,814) | 0 | 0 | 0 | **(224,814)** | 0 | 0 | **(224,814)** |
| Derecognition – disposals | (1,971,000) | 0 | 0 | 0 | **(1,971,000)** | 0 | (442,758) | **(2,413,758)** |
| Derecognition – other | (221,210) | (93,428) | 0 | 0 | **(314,638)** | 0 | 0 | **(314,638)** |
| Assets reclassified (to)/from Held for Sale | (656,524) | 0 | 0 | 0 | **(656,524)** | 0 | 656,524 | **0** |
| Other movements in cost or valuation | 208,139 | | 780 | (208,919) | **0** | 0 | 0 | **0** |
| **As at 31 March 2018** | **193,735,550** | **1,045,000** | **184,335** | **(0)** | **194,964,885** | **259,250** | **577,535** | **195,801,670** |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| **At 1 April 2017** | **0** | **0** | **(15,750)** | **0** | **(15,750)** | **0** | **0** | **(15,750)** |
| Depreciation Charge | (3,959,760) | (15,210) | (18,440) | 0 | **(3,993,410)** | 0 | 0 | **(3,993,410)** |
| Depreciation written out to the Revaluation Reserve | 132,920 | 15,210 | 0 | 0 | **148,130** | 0 | 0 | **148,130** |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | 3,826,840 | 0 | 0 | 0 | **3,826,840** | 0 | 0 | **3,826,840** |
| Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services | 0 | 0 | 0 | 0 | **0** | 0 | 0 | **0** |
| Derecognition – disposals | 0 | 0 | 0 | 0 | **0** | 0 | 0 | **0** |
| Derecognition – other | 0 | 0 | 0 | 0 | **0** | 0 | 0 | **0** |
| Other movements in depreciation and impairment | 0 | 0 | 0 | 0 | **0** | 0 | 0 | **0** |
| **As at 31 March 2018** | **0** | **0** | **(34,190)** | **0** | **(34,190)** | **0** | **0** | **(34,190)** |
| **Net Book Value** | | | | | | | | |
| As at 31 March 2018 | **193,735,550** | **1,045,000** | **150,145** | **(0)** | **194,930,695** | **259,250** | **577,535** | **195,767,480** |
| As at 31 March 2017 | **190,088,150** | **780,000** | **141,743** | **208,919** | **191,218,812** | **259,250** | **363,770** | **191,841,832** |

There is a difference of £288.159m between the tenanted valuation and the District Valuer's Vacant Possession Value of £480.264m at 1 April 2017.

The Vacant Possession Value is an estimate of the total sum that would be received if all of the assets were sold on the open market. The tenanted value declared on the balance sheet is less in recognition of the fact that the properties are occupied by tenants on secure rent less than would be obtainable on the open market.

The difference represents the economic cost of the Government providing council housing at less than market rents.

## 4. CAPITAL EXPENDITURE FINANCING

Capital expenditure in the year on Council Housing Stock and Infrastructure was financed as follows.

| | 2017/18<br>£ | 2016/17<br>£ |
|---|---|---|
| Usable Capital Receipts | 1,147,052 | 1,047,958 |
| Revenue Contributions utilised in year | 3,237,610 | 0 |
| Major Repairs Allowance | 1,848,990 | 3,982,080 |
| Government Supported borrowing | 0 | 0 |
| Government Grants and Contributions | 623,928 | 208,310 |
| **Total Capital Expenditure on Housing Stock** | **6,857,580** | **5,238,348** |

## 5. CAPITAL RECEIPTS

Capital receipts from the disposal of Housing Revenue Account Assets are shown below. 75% of Capital Receipts arising from Right to Buy disposals are subject to National Pooling arrangements payable to CLG.

| | 2017/18<br>£ | 2016/17<br>£ |
|---|---|---|
| Sale of Council Houses under Right to Buy (RTB) | 2,234,280 | 1,792,996 |
| RTB Discounts Repaid | 9,716 | 0 |
| Other Land & Buildings | 172,476 | 0 |
| **Total Capital Receipts from HRA Asset Disposals** | **2,416,472** | **1,792,996** |
| Less Capital Receipts subject to Pooling requirement | (586,507) | (590,547) |
| **Net Capital Receipts from HRA Asset Disposals** | **1,829,965** | **1,202,449** |

## 6. HOUSING REPAIRS ACCOUNT

| | 2017/18<br>£ | 2016/17<br>£ |
|---|---|---|
| Balance Brought Forward 1 April | 25,000 | 25,000 |
| Expenditure on Capital | 0 | 0 |
| **Balance Carried Forward 31 March** | **25,000** | **25,000** |

# Section 9

# Collection Fund

# COLLECTION FUND

The Collection Fund is a statutory account showing the transactions of the billing authority in relation to the collection of council tax and non-domestic rates from taxpayers and the distribution to local authorities and Central Government.

| 2016/17 Total £000 | | 2017/18 Council Tax £000 | NDR £000 | Total £000 |
|---|---|---|---|---|
| | Income: | | | |
| (166,675) | Income from Council Tax (showing the net amount receivable, net of benefits, discounts for prompt payments and transitional relief) | (175,179) | 0 | (175,179) |
| (52) | Income from Specific Grants | (56) | 0 | (56) |
| | Transfers from General Fund | | | |
| 4 | - Transitional relief | 2 | 0 | 2 |
| (78,552) | Income collectable from business ratepayers | 0 | (74,880) | (74,880) |
| 26 | Transitional Protection Payments | 0 | (4,031) | (4,031) |
| **(245,249)** | **TOTAL INCOME** | **(175,233)** | **(78,911)** | **(254,144)** |
| | Expenditure: | | | |
| | Precepts | | | |
| 172,475 | - Shropshire Council and Parish and Town Councils | 141,376 | 41,621 | 182,997 |
| 19,892 | - West Mercia Police & Crime Commissioner | 20,205 | 0 | 20,205 |
| 10,658 | - Shropshire & Wrekin Fire Authority | 10,073 | 849 | 10,922 |
| 39,537 | - Central Government | 0 | 42,470 | 42,470 |
| | Charges to Collection Fund | | | |
| 463 | - costs of collection | 0 | 463 | 463 |
| | Bad and doubtful debts | | | |
| (349) | - write offs | (44) | (321) | (365) |
| 1,051 | - provisions | 606 | 425 | 1,031 |
| | Appeals rates | | | |
| (2,326) | - write offs | 0 | (7,484) | (7,484) |
| (217) | - provisions | 0 | 7,914 | 7,914 |
| | Contributions | | | |
| (12,100) | - Towards previous year's estimated Collection Fund surplus | 2,669 | 3,440 | 6,109 |
| **229,084** | **TOTAL EXPENDITURE** | **174,885** | **89,377** | **264,262** |
| **(16,165)** | **Deficit/(Surplus) for the Year** | **(348)** | **10,466** | **10,118** |
| 9,014 | Balance brought forward | (2,318) | (4,833) | (7,151) |
| **(7,151)** | **Balance carried forward** | **(2,666)** | **5,633** | **2,967** |

## NOTES TO THE COLLECTION FUND

### 1. COUNCIL TAX BASE

The council tax base consists of the number of chargeable dwellings in each valuation band adjusted to reflect discounts and other variations. The total tax base is calculated by converting each band to its band D equivalent and providing for losses and variations during the year of collection. The tax base for 2017/18 was as follows:-

| Council Tax Band | Net Dwellings | Ratio | Band D Equivalents |
|---|---|---|---|
| A1 | 21.53 | 5/9 | 11.96 |
| A | 16,254.90 | 6/9 | 10,836.60 |
| B | 27,764.90 | 7/9 | 21,594.92 |
| C | 24,600.44 | 8/9 | 21,867.06 |
| D | 18,128.09 | 9/9 | 18,128.09 |
| E | 14,000.90 | 11/9 | 17,112.21 |
| F | 7,515.66 | 13/9 | 10,855.95 |
| G | 4,155.82 | 15/9 | 6,296.37 |
| H | 266.30 | 18/9 | 532.60 |
| | | | **107,865.76** |
| Adjustment for MoD Properties (653.49 Band D Equivalents) and Collection Rate (98.2%) | | | (1,299.86) |
| | | | **106,565.90** |

### 2. NON-DOMESTIC RATES (BUSINESS RATES)

Shropshire Council is the billing authority for NDR and retains 49% share of the total collected and distributes the remaining balance to Central Government (50%) and Shropshire & Wrekin Fire Authority (1%).

At 31 March 2018, the total non-domestic rateable value for all business premises in Shropshire was £233,606,580. The multiplier set by Government to calculate rate bills in 2017/18 was 46.6p for small businesses and 47.9p for all other businesses.

## Section 10

# Glossary

## GLOSSARY

| | |
|---|---|
| Accountable Body | An accountable body receives external funding and is responsible for the financial management of these funds, therefore the accountable body must ensure that robust accounting and performance management arrangements are in place with regard to the distribution and spending of these funds. |
| Accounting Concepts | The basis on which an organisation's financial statements are based to ensure that those statements 'present fairly' the financial position and transactions of that organisation. Accounting concepts include 'materiality', 'accruals', 'going concern' and 'primacy of legislative requirements'. |
| Accounting Policies | The principles, bases, conventions, rules and practices applied by an organisation that specify how the effects of transactions and other events are to be reflected in its financial statements. |
| Accumulated Absences Account | The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account. |
| Accruals | The accruals accounting concept requires the non-cash effect of transactions to be included in the financial statement for the year in which they occur, not in the period in which the cash is paid or received. |
| Actuarial Basis | The estimation technique applied when estimating the liabilities to be recognised for defined benefit pension schemes in the financial statements of an organisation. |
| Actuarial Gain | This may arise on defined benefit pension scheme liabilities and assets. A gain represents a positive difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were lower than estimated). |
| Actuarial Loss | These may arise on defined benefit pension scheme liabilities and assets. A loss represents a negative difference between the actuarial assumptions and actual experience (e.g. liabilities during the period were higher than estimated). |

# GLOSSARY

| | |
|---|---|
| Adjusted Capital Financing Requirement | The value of the Capital Financing Requirement after it has been adjusted by the value of Adjustment A. |
| Adjustment A | The difference between the Council's Credit Ceiling and Capital Financing Requirement to ensure that the impact of the Prudential Code (effective from 1 April 2004) is neutral on the Council's revenue budget. Once calculated the figure is fixed. |
| Appropriation | The transfer of sums to and from reserves, provisions and balances. |
| Assets | These are economic resources that can include anything tangible or intangible that is capable of being owned or controlled to produce value and that is held to have positive economic value. |
| Associated Company | An organisation in which the Council has a participating interest and over which it can exercise significant influence without support from other participants in that organisation (e.g. other board members etc.).<br><br>The exercise of significant influence occurs when one organisation is actively involved and is influential in the direction of another organisation through its participation in policy decisions including decisions on strategic issues. A holding of 20% or more of the voting rights of an organisation is generally recognised as being a significant influence. |
| Balances | Amounts set aside to meet future expenditure but not set aside for a specific purpose. |
| Balance Sheet | The financial statement that reports the financial position of an organisation at a point in time, for Shropshire Council this is the 31st March. It shows the balances and reserves at the Council's disposal, long term liabilities and the fixed and net current assets employed in its operations, together with summarised information on the non-current assets held. |
| Below the Line Items | Items that are notionally allocated to services to arrive at the "Net Cost of Service". Below the line items include depreciation and IAS19 pension costs. |

# GLOSSARY

| | |
|---|---|
| Bonds | Investment in certificates of debts issued by a Government or company. These certificates represent loans which are repayable at a future date with interest. |
| Borrowing | Loans from the Public Works Loans Board and the money markets which finance the capital programme of the Council. |
| Budget | The financial plan reflecting the Council's policies and priorities over a period of time i.e. what the Council is going to spend to provide services. This is the end product of a budget strategy. |
| Budget Strategy | A plan of how the Council is going to meet its policies and priorities, taking account of the resources available to the Council. This will include proposals for efficiency savings and possibly service changes and/or cuts, which may free resources to spend on other policies and priorities. |
| Cabinet | The group of members (local councillors) that provide the executive function of the Council within the policy parameters set by Council. This group of members is able to exercise considerable control over the Council. Its decision- making powers are set out in the Council's Constitution. |
| Capital Adjustment Account | The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provision.<br><br>The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.<br><br>The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains. |
| Capital Expenditure | Expenditure on items that have a life of more than one year, such as buildings, land, major equipment. |

| | |
|---|---|
| Capital Financing Requirement (CFR) | This sum represents the Council's underlying need to borrow for capital purposes. It is calculated by summing all items on the balance sheet that relate to capital expenditure, e.g. non-current assets, financing leases, Government grants deferred etc. The CFR will be different to the actual borrowing of the Council as actual borrowing will relate to both capital and revenue activities and it is not possible to separate these sums. This figure is then used to calculate the Council's Minimum Revenue Provision. |
| Capital Grants Unapplied | The Capital Grants Unapplied Account holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place. |
| Capital Receipts | The proceeds from the sale of non-current assets such as land and buildings. These sums can be used to finance new capital expenditure. |
| Capital Receipts Reserve | The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end. |
| Capitalised Expenditure | Represents expenditure on assets. This expenditure is reflected in the value of assets that are reported in the Balance Sheet and will result in increased depreciation costs to the Income and Expenditure Account. |
| Cash Equivalents | Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. |
| Cash Flow Statement | The financial statement that summarises the Council's inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. |

# GLOSSARY

| | |
|---|---|
| Code of Practice on Local Authority Accounting (Code) | A publication produced by CIPFA that provides comprehensive guidance on the content of a Council's Statement of Accounts. |
| Collection Fund | A separate statutory fund which records Council Tax and Non-Domestic Rates collected, together with payments to precepting authorities (e.g. Police Authorities, Fire Authorities etc.), NDR distribution to Central Government and the billing Council's own General Fund. |
| Collection Fund Adjustment Account | The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund. |
| Comprehensive Income and Expenditure Statement | This is fundamental to the understanding of a Council's activities. It brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise Council Tax according to different rules and for the ability to divert particular expenditure to be met from capital resources. |
| Constitution | The document that sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that the Council is efficient, transparent and accountable to local people. |
| Contingent Liability | Potential costs that the Council may incur in the future because of something that happened in the past. |
| Corporate Bonds | Investments in certificates of debt issued by a company. These certificates represent loans which are repayable at a future date with interest. |
| Council | The Council comprises all of the democratically elected Councillors who represent the various electoral divisions. |

# GLOSSARY

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| Council Tax | A local taxation that is levied on dwellings within the local Council area. The actual level of taxation is based on the capital value of the property, which is split into 8 bands from A to H, and the number of people living in the dwelling. |
| Council Tax Base | To set the Council Tax for each property a Council has to first of all calculate the council tax base. This is a figure that is expressed as the total of band D equivalent properties. The total amount to be raised from Council Tax is divided by this figure to determine the level of tax for a band D property. The level of tax for the other bands of property are calculated by applying a predetermined ratio to the band D figure. |
| Council Tax Precept | The amount of income due to the Council in respect of the total Council Tax collected. |
| Credit | A credit represents income to an account. |
| Credit Ceiling | A term from the old Local Authority capital expenditure system, the credit ceiling represented the Council's total debt outstanding after taking account of sums set aside to repay borrowing. |
| Creditors | Represents the amount that the Council owes other parties. |
| Debit | A debit represents expenditure against an account. |
| Debt Charges | This represents the interest payable on outstanding debt. |
| Debtors | Represents the amounts owed to the Council. |
| Dedicated Schools Grant (DSG) | A specific grant paid to Local Authorities to fund the cost of running its schools. |
| Deferred Capital Receipts Reserve | The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. |
| Deficit | Arises when expenditure exceeds income or when expenditure exceeds available budget. |

# GLOSSARY

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| Depreciation | The accounting term used to describe the charge made representing the cost of using tangible non-current assets The depreciation charge for the year will represent the amount of economic benefits consumed in the period, e.g. due to wear and tear over time. |
| Direct Revenue Financing | The cost of capital projects that is charged against revenue budgets. |
| Equities | Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholder's meetings. |
| Estimation Techniques | The methods adopted by an organisation to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes in reserves. |
| Exceptional Item | Material Items which derive from events or transactions that fall within the ordinary activities of the council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts. |
| Finance Lease | A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee. The payments usually cover the full cost of the asset, together with a return for the cost of finance. |
| Financial Instruments | Financial instruments are formally defined in the Code as contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The definition is a wide one, it covers the treasury management activity of the Council, including the borrowing and lending of money and the making of investments. However, it also extends to include such things as receivables and payables and financial guarantees. |

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| Financial Instruments Adjustment Account | The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The Council uses the Account to manage premiums paid on the early redemption of loans. Over time, the expense is posted back to the General Fund Balance in accordance with statutory arrangements for spreading the burden on council tax. |
| Fixed Interest Securities | Investments in mainly Government but also company stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange before the repayment date. |
| Futures | A contract made to purchase or sell an asset at an agreed price on a specified future date. |
| General Fund Balance | The General Fund is the statutory fund into which all the receipts of a Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules might provide otherwise.<br><br>The General Fund Balance is the reserve held by the Council for general purposes, i.e. against which there are no specific commitments. That said it is prudent and sensible for these sums to be treated as a contingency to protect the Council's financial standing should there be any financial issues in the year. |
| Going Concern | The going concern accounting concept assumes that the organisation will not significantly curtail the scale of its operation in the foreseeable future. |
| Group Accounts | Where a Council has an interest in another organisation (e.g. a subsidiary organisation) group accounts have to be produced. These accounts report the financial position of the Council and all organisations in which it has an interest. |
| Hedge Funds | An investment fund that uses sophisticated investment strategies to profit from opportunities on financial markets around the world. These strategies include borrowing money to make investment, borrowing shares in order to sell them and profiting from company mergers. |

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| Heritage Assets | These are tangible assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained by the Council principally for their contribution to knowledge and culture. |
| Housing Revenue Account | The Housing Revenue Account reflects the statutory obligation to maintain a revenue account for the local authority council housing provision in accordance with Part VI of the Local Government and Housing Act 1989. This account includes the revenue costs of providing, maintaining and managing Council dwellings are charged. These costs are financed by tenants' rents and government housing subsidy. |
| Impairment | Impairment of an asset is caused either by a consumption of economic benefits e.g. physical damage (e.g. fire at a school) or a deterioration in the quality of the service provided by the asset (e.g. a library closing and becoming a storage facility), or by a general fall in prices of that particular asset or type of asset. |
| Index Linked Securities | Investments in Government stock that guarantee a rate of interest linked to the rate of inflation. These securities represent loans to Government which can be traded on recognised stock exchanges. |
| Inflow | This represents cash coming into the Council. |
| International Financial Reporting Standards (IFRS) | International Financial Reporting Standards are issued by the International Accounting Standards Board (IASB) to develop a single set of financial reporting standards for general purpose financial statements. |
| Investments | An asset which is purchased with a view to making money by providing income, capital appreciation or both. |
| Joint Venture | An organisation in which the Council is involved where decisions require the consent of all participants. |
| JPUT | A Jersey Property Unit Trust is a specific type of Jersey Trust which is commonly used to acquire and hold interest in UK real estate. The assets of the JPUT are held by its trustees on trust for the unitholders of the JPUT. |

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| LDI | Liability driven investment (LDI) strategies aim to enable pension funds to reduce risk and improve funding levels by reducing volatility over time. Because the value of future pension payments is directly linked to inflation, interest rates and the longevity of Fund members, Funds have sought investments linked to such factors. |
| Leases | A method of funding expenditure by payment over a defined period of time. An operating lease is similar to renting, the ownership of the asset remains with the lessor and the transaction does not fall within the capital control system. Finance leases are more akin to borrowing and do fall within the capital system. |
| Liabilities | An obligation to transfer economic benefits. Current liabilities are usually payable within one year. |
| Liquid Resources | These are resources that the Council can easily access and use, e.g. cash or investments of less than 365 days. |
| Major Repairs Reserve | The Council is required to maintain the Major Repairs Reserve, which controls an element of the capital resources limited to being used on capital expenditure on HRA assets or the financing of historical capital expenditure by the HRA. The balance shows the capital resources that have yet to be applied at the year end. |
| Managed Funds | A type of investment where a number of investors pool their money into a fund which is then invested by a fund manager. |
| Materiality | Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the reader of the accounts. Materiality has both quantitative and qualitative aspects. |
| Minimum Revenue Provision (MRP) | A minimum amount, set by law, which the Council must charge to the income and expenditure account, for debt redemption or for the discharge of other credit liabilities (e.g. finance lease). |

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| Movement in Reserves Statement | This provides a reconciliation showing how the balance of resources generated/consumed in the year links in with statutory requirements for raising Council Tax. |
| Non Domestic Rates (NDR) | Taxation that is levied on business properties. This is collected by billing authorities and then distributed to preceptors and Central Government. |
| Net Book Value | The amount at which non-current assets are included in the balance sheet. It represents historical cost or current value less the cumulative amounts provided for Depreciation or Impairment. |
| Net Expenditure | The actual cost of a service to an organisation after taking account of all income charged for services provided. |
| Net Cost of Service | The actual cost of a service to an organisation after taking account of all income charged for services provided. The net cost of service includes the cost of depreciation relating to non-current assets. |
| Non-Current Assets | Tangible assets that yield benefits to the Council for a period of more than one year, examples include land, buildings and vehicles. |
| Operating Lease | A lease where the asset concerned is returned to the lessor at the end of the period of the lease. |
| Outflow | This represents cash going out of the Council. |
| Outturn | Actual expenditure within a particular year. In the Explanatory Foreword this expenditure is stated before taking into account Depreciation and other Below the Line Items. |

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| Pension Reserve | The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. Statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. |
| Post Balance Sheet Event | Those events both favourable and unfavourable, that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Responsible Financial Officer. |
| Precept | The amount levied by the various joint authorities (e.g. police and fire authorities) which is collected by the council on their behalf. A body which can set a precept is called a preceptor. |
| Primacy of Legislation | The accounting concept primacy of legislation applies when accounting principles and legislative requirements are in conflict, in such an instance the latter shall apply. |
| Prior Period Adjustments | These are material adjustments relating to prior year accounts that are reported in subsequent years and arise from changes in accounting policies or from the correction of fundamental errors. |
| Private Finance Initiative (PFI) | A Government initiative that enables, through the provision of financial support, Authorities to carry out capital projects through partnership with the private sector. |
| PFI Credits | The financial support provided to Local Authorities to part fund PFI capital projects. |
| Provisions | Provisions represent sums set aside to meet specific future expenses which are likely or certain to be incurred, as a result of past events, where a reliable estimate can be made of the amount of the obligation. |

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| Prudence | This accounting concept requires that revenue is not anticipated until realisation can be assessed with reasonable certainty. Provision is made for all known liabilities whether the amount is certain or can only be estimated in light of the information available. |
| Prudential Borrowing | The amount of borrowing undertaken by the Council to fund capital expenditure, in line with affordable levels calculated under the Prudential Code. |
| Prudential Code | The Government removed the extensive capital controls on borrowing and credit arrangements from 2004/05 and replaced them with a Prudential Code under which each Council determines its own affordable level of borrowing. The Prudential Code requires authorities to set specific prudential indicators e.g. affordable borrowing limit on an annual basis. |
| Public Works Loans Board (PWLB) | A Government agency providing long and short term loans to local authorities at interest rates only slightly higher than those at which Government itself can borrow. |
| Public Sector Bonds | Investments in certificates of debt issued by Government. These represent loans to Governments which are tradable on recognised stock exchanges. |
| Revaluation Reserve | The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are revalued downwards or impaired and the gains are lost, used in the provision of services and the gains are consumed through depreciation, or disposed of and the gains are realised.<br><br>The Reserve contains only revaluation gains accumulated since April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account. |
| Revenue Expenditure | Expenditure on the day to day running costs of the Council, such as salaries, wages, utility costs, repairs and maintenance. |
| Revenue Expenditure Funded By Capital Under Statute | Expenditure incurred during the year that may be capitalised under statutory provisions and does not result in the creation of non-current assets. |

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| Revenue Support Grant (RSG) | An amount of money that Central Government makes available to Local Authorities to provide the services that it is responsible for delivering. |
| Reserves | Sums are set aside in reserves for specific future purposes rather than to fund past events. |
| Service Reporting Code of Practice (SERCOP) | Provides guidance to local authorities on financial reporting to stakeholders. It establishes 'proper practice' with regard to consistent financial reporting, which allows direct comparisons to be made with the financial information published by other local authorities. |
| Soft Loan | This is a loan which is provided with a below-market rate of interest. |
| Specific Grant | A grant awarded to a Council for a specific purpose or service that cannot be spent on anything else. |
| Subsidiary | An organisation that is under the control of the Council (e.g. where the Council controls the majority of voting rights, etc.) |
| Surplus | Arises when income exceeds expenditure or when expenditure is less than available budget. |
| Trading Service/Organisation | A service run in a commercial style and environment, providing services that are mainly funded from fees and charges levied on customers. |
| Treasury Strategy | A plan outlining the Council's approach to treasury management activities. This includes setting borrowing and investment limits to be followed for the following year. |
| Unit Trusts | A pooled Fund in which small investors can buy and sell units. The pooled Fund then purchases investments, the returns on which are passed on to the unit holders. It enables a broader spread of investments than investors could achieve individually. |
| Unquoted Equity Investment | Investments in qunquoted securities such as shares, debentures or unit trusts which are not quoted or traded on a stock market. |

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| Usable Capital Receipts Reserve | Represents the resources held by the Council that have arisen from the sale of non-current assets that are yet to be spent on other capital projects. |
| Usable Reserves | Reserves that can be applied to fund expenditure or reduce local taxation, all other reserves retained on the balance sheet cannot. |
| Variation | The difference between budgeted expenditure and actual outturn, also referred to as an over or under spend. |
| Virement | The transfer of resources between two budgets, such transfers are governed by financial rules contained within the Constitution. |

# Statement of Accounts

## 2017 – 2018

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**Have your say – We want to know what you think of this statement of accounts. Tell us your views by telephone (01743) 258948 or email corporate.finance@shropshire.gov.uk**

If you can read this but know someone who can't, please contact us on (01743) 258948 so we can provide this information in a more suitable format such as large print, Braille and audio, or translated into another language.